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The battle for business as usual

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TUESDAY MARCH 19 1996

World Business Newspaper

MCI price move intensifies war to control Internet

Moves by the world's leading telecommunications operators to take control of access to the Internet, the global network of computer networks, are accelerating. MCI, the second largest US long-distance operator announced improvements to its Internet network, the world's most extensive, and prices to challenge those revealed last month by AT&T, the largest US operator. The group plans to triple the capacity of its network and provide its customers with more value-added Internet services. Page 17

Strong D-Mark blamed for 13% profit fall at Schering

Schering, the German pharmaceuticals group, announced a 13 per cent fall in profits for 1995, caused largely by the strong D-Mark and growing competition, particularly from Japan. Net profits fell DM37m from DM285m in 1994 to DM248m ($167.5m) last year, while sales declined 1 per cent from DM4.69bn to DM4.64bn over the same period. Page 17; Lex, Page 16

Singapore and US 'most competitive': Business leaders rate the US and Singapore as the world's most competitive nations, followed by Japan, Germany, South Korea and Switzerland, according to a survey by the International Institute for Management Development. Page 7

GEC confirms Simpson as MD: George Simpson, the chief executive of Lucas Industries, was yesterday confirmed as the new managing director of the General Electric Company. Page 17

UN, Iraq nearer oil deal: United Nations and Iraqi negotiators neared an end to their second round of talks on a limited resumption of Baghdad's oil exports, to pay for food and medicines for civilians suffering under the impact of sanctions. Page 7

UK plan may increase deportations: The UK government is considering plans to increase the number of people deported from Britain by the Immigration and Nationality Department by making it an executive agency and setting tough new targets. Page 11

EU reaffirms ban on meat hormones: European Union agricultural ministers agreed to introduce tighter controls and tougher sanctions to improve the Union's controversial ban on the use of growth-promoters in meat production. Page 6

Nine BP executives to share £10m: Nine present and former directors of British Petroleum are to share in an award of £10.5m ($16m) of shares under the company's long-term performance plan. Page 22

Unitech shares rose 173p to 688p on expectations that Siebe, the industrial controls manufacturer, will have to increase its friendly £450m ($688m) takeover offer to secure control of the electronic controls group. Page 23

Banks target former Yugoslavia: German and Austrian banks are showing growing interest in the former Yugoslavia. Page 19

Brussels bourse inquiry: The Brussels bourse launched an inquiry into possible price manipulation by index-linked funds, whose recent forays into the market have been credited with giving a boost to the bourse's Bel-20 share index. Page 2

Gdansk shipyard faced with closure: Poland's historic Gdansk shipyard, where Solidarity was born and where the country's former president, Lech Walesa, turned a strike over wages into a crusade which brought down communism, is faced with closure. Page 3

Romania bans five banks from forex: Romania's central bank banned five banks, including ING, the Dutch financial services group, from dealing on their own account in the country's fledgling foreign exchange market. Page 16

Serial killer West seeks appeal: Lawyers seeking an appeal for British serial killer Rosemary West said lurid media coverage had prevented a fair trial. The 41-year-old mother was sentenced to life imprisonment last November for the murder of 10 young women including her own daughter.

President Mandela faces divorce hearing: South African President Nelson Mandela told a divorce hearing his estranged wife, Winnie, had turned him into a lonely man and humiliated him publicly with her brazen conduct and infidelity.

Car bomb kills five in Algeria: A car bomb killed five people and wounded 10 in the north-eastern Algerian town of Tizi-Ouzou. An estimated 50,000 people have been killed in Algeria's violence pitting government forces against Moslem guerrillas since 1992.

■ STOCK MARKET INDICES		
New York: lunchtime		
Dow Jones Ind Av	5634.47	(+49.5)
NASDAQ Composite	1110.79	(+11.2)
Europe and Far East		
CAC40	1985.02	(+14.9)
DAX	2483.16	(+4.93)
FT-SE 100	3669.6	(+24.8)
Nikkei	20285.13	(+94.28)

■ US LUNCHTIME RATES	
Federal Funds	5¼%
3-mth Treas Bills: Yld	5.16%
Long Bond	90⅞
Yield	6.71%

■ OTHER RATES		
UK: 3-mo Interbank	6⅛%	(6⅛%)
UK: 10 yr Gilt	95⅞	(95⅛)
France: 10 yr OAT	103.92	(103.57)
Germany: 10 yr Bund	96.16	(96.03)
Japan: 10 yr JGB	98.816	(98.836)

■ NORTH SEA OIL (Argus)		
Brent 15-day (May)	$18.79	(18.01)

■ GOLD		
New York: Comex		
(Apr)	$396.3	(396.9)
London:		
close	$394.8	(395.8)

■ DOLLAR		
New York: lunchtime		
£	1.5305	
DM	1.47625	
FFr	5.0475	
SFr	1.19055	
Y	105.985	
London:		
£	1.5317	(1.5238)
DM	1.4742	(1.476)
FFr	5.0483	(5.0575)
SFr	1.189	(1.1905)
Y	106.01	(105.9)

■ STERLING		
DM	2.258	(2.2491)
Tokyo close:		Y 106.0

Albania	LEK 220	Germany	DM4.00	Lithuania	Lis 15.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR12
Bahrain	Din1.250	Hong Kong	HK$20	Malta	Lm0.65	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft230	Morocco	MDh16	Slovak Rp	Sk65
Bulgaria	Lw130.00	Iceland	IKr230	Neth	Fl 4.75	S. Africa	R12.00
Cyprus	C£1.20	India	Rs75	Nigeria	Naira90	Spain	Pta250
Czech Rp	Kc60	Israel	Shk7.90	Norway	NKr20.00	Sweden	SKr20
Denmark	DKr18	Italy	L3200	Oman	OR1.50	Switz	SFr3.70
Egypt	E£5.00	Japan	Y500	Pakistan	Rs40	Syria	S£65.00
Estonia	EKr 22	Jordan	JD1.50	Poland	Zl 5.50	Tunisia	Din1.750
Finland	FM15.50	Kuwait	Fils.850	Portugal (m'land)	Es240	Turkey	L70,000
France	FFr11.50	Lebanon	LL3,000			UAE	Dh12.00

Beijing war games aim to intimidate voters in Taiwan's presidential poll

China evacuates test site islands

By Tony Walker in Beijing, Laura Tyson in Taipei and John Ridding in Hong Kong

Taiwanese soldiers line up before taking part in an exercise as the defence ministry put on a a show of its own military strength — Picture: Reuter

China ordered the evacuation yesterday of dozens of its islands in the Taiwan Strait to clear the way for live-fire exercises by its forces.

Meanwhile, residents of several Taiwanese-controlled islets near the mainland have fled their homes.

The exercises at the narrow northern end of the strait, which appeared not to have begun as scheduled yesterday because of poor weather, are aimed at intimidating voters on the eve of Taiwan's presidential elections on Saturday.

They conclude two days after the poll, and dovetail with similar war games being held until tomorrow at the southern end of the strait. The manoeuvres were preceded by a round of missile tests near Taiwan's two biggest commercial ports.

An indication of the seriousness with which Beijing officials can regard their country's perceived rights over Taiwan came when Mr Winston Lord, the US assistant secretary of state for east Asia and the Pacific, said Washington had even been warned that the US could face the threat of nuclear attack if it interfered militarily to defend Taiwan.

"Some Chinese lower-level officials told some visiting American officials that we wouldn't dare defend Taiwan because they'd rain nuclear bombs on Los Angeles," AFP news agency quoted Mr Lord as telling C-Span cable television on Sunday.

He dismissed the remarks as "a little disinformation and some psychological warfare", saying a high-level Chinese official, during a visit a week ago to Washington, "denied that it was any official policy". The threat was "unhelpful-type rhetoric".

China's military exercises, involving 150,000 men from the navy, air force and army, are its biggest show of force in the Taiwan Strait since Taiwan's President Lee Teng-hui was granted a visa by the US to visit last June.

China's leadership fears the island's first direct presidential election, in which Mr Lee is running for a second term, may be a stepping stone to a declaration of independence. Beijing regards Taiwan as a renegade Chinese province eventually to be recovered, by force if necessary.

Several hundred civilian inhabitants of islets near the frontline island of Matsu, a heavily fortified Taiwanese stronghold, have fled to the main island in recent days. A Chinese official on Pingtan, a Chinese island in the strait's northern waters, told Reuters, meanwhile, that "the government has ordered that people on islands in the test area evacuate to the mainland".

Mr Yin Tsung-wen, director of Taiwan's National Security Bureau, told cabinet officials yesterday it was likely China would announce another round of manoeuvres shortly, but these would be further inland and would have less impact on Taiwan.

In Hong Kong, senior officials are continuing to express concern over the issue. They fear Sino-US tensions risk harming trade flows and complicating renewal of China's Most Favoured Nation trading status.

Conoco to seek oil off Taiwan, Page 6
Editorial Comment, Page 15

Financial Times now printing at Hong Kong site

With this issue, the Financial Times starts printing in Hong Kong, on the presses of Kin Ming at Chai Wan. From Hong Kong, copies will be sent to most of the Asia-Pacific region, arriving on the day of publication. In Hong Kong itself, copies will be available in the central business district by 8am local time.

The FT is now printed daily at 10 sites worldwide, two in Britain and eight overseas. International printing of the FT started in Frankfurt in 1979. Over 10 years print centres were added in France, New Jersey and Tokyo. A second phase of international expansion began in 1995 with the addition of Sweden, Madrid, Los Angeles and now Hong Kong.

Mr David Bell, chairman of the Financial Times, said in Hong Kong yesterday: "Printing in Hong Kong marks an important step in our international expansion, and underlines the FT's commitment to its international readership in general and the Asia-Pacific region in particular."

The launch of the new print centre will be marked by a ceremony in Hong Kong. Mr Bell said: "We are grateful to Kin Ming for their help in setting up this printing arrangement so efficiently. They are the latest edition addition to the network of partners around the world whose help is essential to the smooth operation of our world business newspaper."

The international edition is edited to be relevant to readers outside the UK. British news is condensed and more space devoted to international topics. However, some 80 per cent of the paper is common to both UK and international editions. In both, the paper retains its emphasis on news, analyses and comment on issues of relevance to business.

At the end of 1995, the international edition accounted for about 135,000 of the FT's daily sales of 310,000 copies. Sales in the Asia-Pacific region, currently 8,000 a day, are expected to rise rapidly now the paper is available to readers earlier.

Peter Martin
International Edition Editor

EU outlines $4.5bn aid package for Bosnia

Brussels plans donors' conference as Christopher meets Balkan leaders to shore up peace process

By Laura Silber in Geneva

The European Union yesterday laid out plans to raise up to $4.5bn in Bosnian reconstruction aid, as Mr Warren Christopher, the US secretary of state, conferred in Geneva with three Balkan leaders on the peace process.

EU officials said an international donors' conference scheduled for April 12, would aim to raise $1.2bn this year and a further $3.3bn over the next three or four years to rebuild Bosnia's shattered economy.

European officials have, so far, been disappointed by donations from Asian and Middle East countries. The US Senate last week approved $200m in aid subject to the departure from Bosnia of Iranian military advisers.

Mr Christopher's decision to hold an urgent review of the reconciliation effort with the leaders of Serbia, Croatia and Bosnia came as a sharp reminder that long-term peace is far from guaranteed.

Yesterday's meeting highlighted fresh divisions among the contact group, the five nations which sponsored the Bosnian peace effort. Russia only sent an observer to the morning session, showing its irritation with Mr Christopher for appearing to upstage a meeting in Moscow this Saturday.

The Geneva talks focused on ways of bolstering the Croat-Moslem federation within Bosnia, which has looked shaky in recent days.

The deployment of a 60,000-member Nato-led Implementation Force (Ifor) has ended fighting in Bosnia, but all three ethnic groups – Serbs, Croats and Moslems – have been accused of obstructing the civilian aspects of the Dayton accord.

Mr Christopher talked separately with Presidents Slobodan Milosevic of Serbia, Franjo Tudjman of Croatia and Mr Ejup Ganic, who is acting as Bosnian head of state because of President Alija Izetbegovic's illness.

As the talks began, there was chaos in Grbavica, the last of the five Serb-held districts of Sarajevo to be handed over to Moslem-Croat control. Serb gangs yesterday rampaged through the district, setting fire to buildings abandoned by most Serb residents, fearing their fate under Bosnian government control.

The exodus of the Serbs from Sarajevo took Bosnia a step closer to ethnic partition. The western governments who sponsored the Dayton accord had hoped that Sarajevo would become a multi-ethnic city linking the two parts of Bosnia: a

Continued on Page 16

Paris edges towards change of status for France Télécom

By David Buchan in Paris

The French government yesterday embarked cautiously on the possible partial privatisation of France Télécom by asking Mr Michel Bon, the organisation's president, to consult his 151,000 workforce on the preliminary step of converting the state utility into a regular company with its own capital.

In a letter to Mr Bon, Mr Alain Juppé, the prime minister, promised that France Télécom "will remain a public enterprise in the form of a company held in its majority by the state".

Mr Juppé also promised that it would stay "the public operator" of a national service after telecommunications were deregulated in 1998, and that current employees would keep their civil servant status with associated job and pension guarantees. He did not mention partially privatising or opening up the utility's capital to outside investors.

But France Télécom unions, which oppose the government's plan to admit new telecoms operators in 1998, were quick to read privatisation as the prime minister's ultimate goal. Some said they would refuse to enter into negotiations with Mr Bon on changing the utility's status.

The SUD-PTT union said: "However it is phrased, the privatisation of France Télécom will eventually lead to jeopardising the status of the personnel and massive job losses."

Although the number of union members is much smaller, some 60 per cent of France Télécom's personnel back the SUD-PTT and pro-communist CGT unions in works council elections, while other unions are almost as hostile to the government's telecoms reforms. At one point during last December's public sector strikes as many as 38 per cent of France Télécom's personnel stopped work.

Clearly chastened by the outcry provoked by his welfare and railway reforms last year, Mr Juppé asked Mr Bon to "associate the personnel and its representatives" with the necessary reforms to allow France Télécom "to confront competition with the same weapons as its [international] competitors".

The government has not set a deadline for Mr Bon to complete his consultations. Neither has it set a date to present to parliament a law incorporating France Télécom with its own capital.

A senior official said yesterday that the question of opening the company's capital to allow partners such as Deutsche Telekom or Sprint to take a minority stake could only be tackled "when France Télécom legally has capital to open".

France has made commitments to the European Union and to the US, where France Télécom and Deutsche Telekom have taken a 20 per cent stake in Sprint, to deregulate its telecoms market.

But officials stressed yesterday that Paris was under no such international obligation in changing France Télécom's status.

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Centre-left alliance balks at recruitment of Forza Italia rebel

Dotti debacle deals blow to Dini

By Robert Graham in Rome

The political judgment of Mr Lamberto Dini, Italy's caretaker prime minister, was called into question yesterday after a last-minute recruit to his nascent Italian Renewal party was obliged to withdraw.

The recruit was Mr Vittorio Dotti, who over the weekend was ousted from Forza Italia, the political movement created by Mr Silvio Berlusconi, the media magnate and politician.

Mr Dotti, leader of the Forza Italia group in the Chamber of Deputies, was immediately snapped up by Mr Dini. But this provoked a chorus of protest from within the centre-left alliance on which Mr Dini is relying for electoral support. Within 24 hours of joining forces with Mr Dini's small centrist party, Mr Dotti said he was stepping down.

The incident occurred just before last night's deadline for the parties to submit their lists of candidates for the general elections on April 21.

Senior figures in the centre-left's Olive Tree alliance are understood to have warned Mr Dini against taking on Mr Dotti when they heard he was considering his recruiting him. In particular, Mr Romano Prodi, leader of the Olive Tree alliance, believed Mr Dotti's presence would confuse voters and provide ammunition for Mr Berlusconi's rightwing alliance.

Mr Dotti is in the midst of a serious controversy regarding his companion of eight years who has been giving evidence to anti-corruption magistrates in Milan. This led last week to the arrest of a prominent Rome judge and the investigation of Mr Cesare Previti, former defence minister in the Berlusconi government and also a key lawyer with Fininvest, Mr Berlusconi's business empire.

Mr Dini, however, appears to have felt he needed to be more independent of the alliance and appeal to the moderate elements in the electorate – Mr Dotti having a good public image as such a moderate within Forza Italia.

In order to make room for Mr Dotti, Mr Dini even had to persuade a candidate to relinquish a previously promised constituency.

The sudden withdrawal of Mr Dotti underlined the extent of Mr Dini's miscalculation and the degree to which he is obliged to respect the wishes of the Party of the Democratic Left which dominates the Olive Tree alliance.

Under the voting system, the alliance supports agreed candidates for the 75 per cent of the seats covered by first-past-the-post rules. The parties present their own lists for the remaining 25 per cent covered by proportional representation.

The Dotti incident has also highlighted how the lists of candidates have been kept open right until the last minute. The selection continues to have little to do with genuine local representation and much more with central choice by the parties in Rome.

The principal absentee is Mr Mario Segni, the former Christian Democrat and leader of the referendum movement, who has decided not to stand despite having been an important influence behind Mr Dini's decision to enter the political arena.

Serbs' last suburb to be handed over

Grbavica awaits arrival of Bosnian Federation police, says **Harriet Martin in Sarajevo**

At dawn today, around 100 Bosnian Federation policemen were due to enter Grbavica, the last of five Sarajevo suburbs to change hands under the Dayton peace deal and the only central area of Sarajevo controlled by the Serbs during the war.

In the days leading up to the handover the grim estate of grey concrete tower blocks has been wrecked by looting and arson, as the angry Serb population has packed up and left. The Serbs refused to stay and live under what they considered to be "Islamic fundamentalist" control ending hopes of recreating a united multi-ethnic Sarajevo.

One middle-aged man was yesterday packing his battered VW Golf by his home on the slopes above the city, from where, for four years, the Serbs had shelled its civilian population. Pointing to the vista of dishevelled office blocks and housing estates, he described Sarajevo as "the modern-day Iran in Europe".

An elderly woman trudges past Italian Ifor troops at Grbavica, the suburb of Sarajevo set ablaze by departing Serbs *Reuter*

In the streets below a Serb couple, in their sixties, who wanted to stay, stood weeping on the pavement. They had been petrol bombed out of their flat, which was now being destroyed by fire.

About 7,000 out of 70,000 Serbs in the Serb suburbs stayed despite intense harassment by other Serbs who regarded them as traitors. Since the Federation took over many have been intimidated into leaving.

Elsewhere in Bosnia, there are other problems. Under the Dayton peace agreement, there should be freedom of movement throughout the country, refugees have the right to return home, and the Federation between the mostly Muslim Bosnian government and the Croats is supposed to run the customs posts on its international border. The Croats and the Serbs, who fought the war with the aim of ethnic separation, have refused to allow Moslem refugees to return home, leading to tit for tat responses by the Bosnian government.

In Mostar over the weekend Moslem refugees blocked the main road to Sarajevo after the Croats refused to let them visit the graves of relatives in the southern town of Capljina.

The Bosnian government refused to allow the Croat authorities to supply policemen for the "Federation" police force which took over the Sarajevo suburb of Ilidza last week.

On the main border crossing from Croatia into Bosnia, Croat authorities continue to try and impose customs duties on commercial traffic destined for Bosnian government areas.

The government-controlled area around Bihac in the west of the country continues to be a de facto enclave as the Croatians refuse to open up the international border. This allows the Bosnian Croats in the south to control freedom of movement of vehicles in and out of Bihac, charging a "customs" tax of 100dem per commercial vehicle.

But yesterday appeared to bring a solution when Nato officials said General Rasim Delic, the Bosnian Army commander, had agreed to submit a withdrawal plan for 4,500 of his troops from a demilitarised zone in Sarajevo.

Brussels bourse in fund price inquiry

By Michael Morgan

The Brussels bourse yesterday launched an inquiry into possible price manipulation by index-linked funds, whose recent forays into the market have been credited with giving a boost to the bourse's Bel-20 share index.

Mr Olivier Lefebvre, head of the bourse management committee, said last night an examination was under way. Activity in recent weeks by capital guaranteed mutual funds linked to the Bel-20 index has often been seen in frantic bouts of basket trading in the last minutes of trade. As many funds' reference prices are based on the closing price of the index over a period of days – rather than the day's average price – funds have an interest in pushing up the index towards the close. "This is another problem which must be investigated, because a closing price is less representative than the average price," Mr Lefebvre said. Both the Brussels bourse and the regulatory banking and finance commission would have to review the funds' reference price system, he said.

However, news of the investigation came after the bourse fell by 3 per cent in the last minutes of trading on Friday. "The reference price for another new fund was being set by the closing prices on Wednesday, Thursday and Friday, but then somebody else seemed to move in to spoil the fun," said one analyst. "Most people had already packed up and gone home for the weekend, so there was nobody left to counter the downward pressure. This sort of volatility makes everybody nervous."

Mr Quentin Quarterman, Belgian specialist at Kleinwort Benson in London, pointed out that the Brussels market had anyway become more volatile as it faced up to the new challenges of lower earnings growth and slightly higher bond yields.

He noted that profits growth had fallen from 39 per cent to 1994 to about 23 per cent in 1995. Forecasts for this year, were for growth of just 7 per cent as profits for some cyclical businesses were downgraded.

EU states square off for Maastricht Round 2

Talks on Union's future shape are set to begin in earnest, writes **Lionel Barber** in Brussels

After months of phoney war, the hard bargaining is about to begin on the future shape of the European Union. On March 29, the 15 EU heads of government, including a previously reluctant President Jacques Chirac of France, will arrive in Turin for a brief ceremony to launch constitutional talks likely to last at least 15 months.

It is tempting to draw parallels with the 1787 Philadelphia convention which launched the United States of America: but the reality is more down-to-earth. Loose talk about creating a United States of Europe has long vanished. Even Chancellor Helmut Kohl of Germany, the arch-exponent of a federal Europe, concedes as much.

The issue in the EU's intergovernmental conference is how best to organise a Europe of nation states committed to expansion eastwards and southwards. This is the message in position papers put forward by the 15 EU governments. So much so that the joint draft of the Benelux countries, founder members of the European Community in 1958, avoids the word "federal".

The shift in mood is partly a legacy of the Maastricht treaty and its painful ratification, partly a response to Euro-fatigue. More than 20m people are out of work in Europe. The total is climbing, notably in Germany. The public is nervous about another great leap forward in integration.

Yet it would be wrong to prejudge the IGC as a non-event. Maastricht began with low expectations, but the dynamic of negotiations produced more than many believed possible: a fixed timetable for monetary union by 1999; a new architecture for co-operation in external and internal security; and the creation of the European Union.

Maastricht II is about making Maastricht I live up to its promises. Here divisions between member states over methods and philosophy become apparent.

The maximalist camp is led by Germany. Chancellor Kohl, both eyes fixed on the strategic imperative of eastern enlargement, wants to adapt EU decision-making to cope with a Union which could expand to 25 members in the next 5-10 years.

Thus, Germany wants a "single European space", which would guarantee freedom of movement of EU citizens, while forging a joint approach among member states on asylum and immigration matters, as well as beefed-up co-operation against terrorism, organised crime and drug trafficking.

On Maastricht's common foreign and security policy, Germany is pressing for "differentiated integration". Bonn views consensus as the ideal on matters of vital interest, but favours more majority voting on decisions to execute policies.

The Germans are also floating ideas such as constructive abstention, where no member state would be expected to provide troops or police for joint actions against its will. The price for "opting out" would be political and financial support.

The German vision draws broad support from the smaller countries such as the Benelux, Ireland and Italy, and the European Commission. But it collides with the British government's position as expressed in last week's White Paper on Europe.

The UK policy is containment. No more majority voting. No new powers for the European Parliament. No more EU-wide areas of responsibility such as energy or tourism. Limits on Union action. Limits on the retrospective application of judgments from the European Court of Justice.

"We shall not accept harmonisation for its own sake, or further European integration which is driven by ideology rather than the prospect of practical benefit," says the White Paper.

France could tilt the balance in the IGC; but so far President Chirac's mercurial brand of neo-Gaullism has kept Bonn and London guessing.

Like the British, Mr Chirac gives the European Parliament short shrift (though his government is willing to go the European Court to protect Strasbourg as the MEPs' second home). And he insists that the Council of Ministers remains the principal forum for decision-making, particularly in foreign policy and internal security.

Yet Mr Chirac is considering proposals in Brussels and Bonn for flexible integration. This would allow some countries to move ahead of the rest, to integrate more closely in certain areas, without being held back by national vetoes.

Britain nominally supports the idea, but worries that it could lead to exclusive clubs or weaken common disciplines in areas such as the single market. More broadly, Britain, France, and Germany, along with Spain and Italy, are all in favour of increasing the voting weights for large member states in the Council of Ministers.

If there is a wild card, it is the Nordic countries. A Swedish-led push for new treaty language on employment is gaining ground. The Nordics are also pushing for more open decision-making, believing this is one way to bridge the gap between Brussels and the ordinary citizen.

Unless there is some progress in this direction, the new treaty could run into ratification difficulties in Scandinavia. Everyone remembers Denmark's narrow No to Maastricht in June 1992; nobody wants a repeat performance in 1997-98.

The need to keep an eye on public opinion is a powerful incentive to hold off far-reaching institutional change – at least enlargement goes ahead in the early part of the next century accompanied by the next, inevitable IGC.

First Euros go on sale to public

The first examples of officially minted Euros, the future European currency, went on sale in France yesterday – made of gold, and offered to collectors at 10 times face value, AFP reports from Paris. The coins have a double face value of FFr500 francs or Euro75, and carry an impression of the "Penseur" statue by French sculptor Auguste Rodin. A first run of 5,000 coins has been produced.

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Airlift keeps Arctic oil search supplied

Robert Corzine joins some cabbages on a helicopter mission to Russian far north

The setting sun burned brightly above a blanket of thick Arctic mist as the crew of the Aeroflot Mil-8 helicopter searched for Conoco's Polar Lights oilfield, inside the Arctic Circle at Ardalin in Russia's remote Nenets region, about 1,000 miles north-east of Moscow.

Neither the lights of the camp nor the gas flare that towers above it could be seen through the fog, but Captain Anatoly Oleferenko, an Arctic veteran, began a slow descent. The gloom quickly enveloped the helicopter to the point where the crew could no longer tell where the fog ended and the snow-covered tundra began.

The landing aborted, the Mil-8 scurried ahead of the pursuing fog bank to a helipad near Kharyaga, a ramshackle oil exploration and processing camp some 40 miles to the south, where the fog caught up and grounded the helicopter for 17 hours.

At the entrance to the camp a small group of Nenets, the nomadic local people, were selling frozen sides of reindeer meat piled high on sleds.

Inside, in one of the wooden barracks that house the several hundred or so oil workers at the site, Mr John Capps, the Texan in charge of the Polar Lights joint venture with a Russian company, explained that "delay is a typical Arctic experience. You start out to do something in one day and it winds up taking three".

Such problems have so far not discouraged western oil companies whose executives continue to scour the northern areas, where a number of large oil reserves were discovered by Soviet geologists but remained largely undeveloped because of the remoteness of the region and the focus of the Soviet oil industry on the giant fields of western Siberia.

"The attraction of the north is that there is no risk that the oil is not there," says Mr Capps. The big problem, he says, is lack of a large export pipeline from the region in the absence of roads and other infrastructure.

Polar Lights can only be resupplied with heavy goods, including fuel and pipes, during the winter when bulldozers can carve snow and ice roads in the two or three metres of snow that cover the tundra. Even then, dense Arctic fog can also make overland travel risky.

For moving personnel, lighter goods like food and even lighter valuables like wages, the heated helicopters operated by specialist service companies are vital.

All overland movement becomes impossible in the summer; crossing the boggy tundra is "like walking on six feet of sphagnum moss", according to Mr Bill Willoughby, an Oklahoma engineer and the only American at Conoco's pumping station at Kharyaga.

Delays come in different forms in Russia's Arctic. When bright sun burned off the fog around Kharyaga on Sunday, Capt Oleferenko's helicopter remained firmly on the ground. "We're waiting on the cabbage," he explained to a handful of passengers.

With a dozen or so sacks of cabbage safely on board, the Mil-8 resumed its journey towards Ardalin, following the elevated pipeline that links Polar Lights with Kharyaga. But a sudden wall of fog foiled that strategy and an approach along the track of a snow road also failed.

When finally ordered to abandon the attempt to land at Ardalin and divert to Naryan-Mar, the region's administrative capital to drop off his passengers, Capt Oleferenko had other ideas about his priorities. "But what about the cabbage?" he asked.

EUROPEAN NEWS DIGEST

Coalition hopes rise in Spain

Expectations of a pact to allow the formation of a conservative Spanish government rose yesterday after talks between Mr José María Aznar, leader of the centre-right Popular party, and Mr Jordi Pujol, the Catalan regional president.

At the meeting in Madrid, Mr Aznar is reported to have put forward an outline of possible agreement with Mr Pujol's Convergence and Union party, whose support he is seeking to become prime minister in a vote of confidence next month. These areas included European monetary union, budget curbs, Basque separatist violence and regional policy.

It was the first meeting between the two leaders following the PP's narrow general election victory two weeks ago. An agreement with Mr Pujol would be expected to ease the way for other regional parties to make deals with the PP.

Meanwhile, Mr Felipe González, the outgoing Socialist prime minister, told supporters in Andalucia that the Socialists could come back with a clear parliamentary majority after "two or three years". *David White, Madrid*

Hungarian loan boosts shares

The Budapest stock exchange hit a new high yesterday and Hungarian shares closed mostly higher on news that the International Monetary Fund (IMF) had approved a $387m standby loan to Hungary.

This arrangement signals Hungary's return to favour after three years. Shortly after a similar agreement with the IMF in 1993, Budapest reneged on some of the conditions, and the loan was withdrawn.

The economy went into a tailspin as the country's twin current account and budget deficits ballooned.

In March 1995 the government, a coalition of reformed Communists and former dissidents, appointed a prominent banker, Mr Lajos Bokros, as finance minister.

He implemented a harsh austerity programme to boost exports and cut public spending.

As a result the current account shortfall dropped from $3.9bn in 1994 to $2.5bn last year. The budget deficit was also reduced significantly. Hungary may now be invited to join the Organisation for Economic Co-operation and Development (OECD) by the end of March. OECD membership was conditional on the IMF loan. *Tim Smart, Budapest*

Dutch moves on insider trading

The Dutch Finance Ministry is expected later this week to present plans to the cabinet on tightening legislation on insider trading.

The revised law would ease the burden of proof for prosecutors, who would no longer have to prove insider trading was designed to produce profits for defendants. Under the proposals, any insider trading using confidential information would be a punishable offence, regardless of whether it resulted in personal gain.

Only one person has been tried for insider trading in the Netherlands under 1989 legislation. Mr Joep van den Nieuwenhuyzen, a former chairman of Begemann, the engineering company, was acquitted last week after a court ruled the prosecution had failed to establish that his sale of shares in HCS, a now-defunct computer company, was for personal gain. *Ronald van de Krol, Amsterdam*

Grenoble wins after bribes case

Inhabitants of the French city of Grenoble are to get cheaper water following the city's renegotiation of its controversial contract with Lyonnaise des Eaux that had led to the conviction for corruption of former city mayor and Gaullist minister Alain Carignon.

Carignon is appealing against a three-year prison sentence for receiving gifts from Lyonnaise des Eaux in return for awarding it a 25-year concession to supply Grenoble with water. Lyonnaise had defended its 1989 contract as fair, but said yesterday as a result of the contract renegotiation with the city's new Socialist mayor, Mr Michel Destot, its Cogese subsidiary would stop levying extra user charges, which were paid to the city. The cost of Grenoble water will drop from FFr13.04 to FFr12 per cubic metre.

Lyonnaise will also surrender majority control of its water concession back to Grenoble in a rare "re-nationalisation" of a service that has been increasingly contracted out by municipalities to utilities. *David Buchan, Paris*

Tapie corruption trial opens

The trial in Béthune, near Calais, opened yesterday of Mr Bernard Tapie (above), the colourful French businessman and politician, in the so-called "Testut affair", in which he is accused of misusing corporate funds.

Mr Tapie and four others are accused of using Testut, the French market leader in the manufacture of professional weighing machines, to channel up to FFr100m ($19.7m) in funds for the purchase of Trayvou, another weighing group, funding an associate's election campaign, and offering money to players in the Olympic Marseilles football team previously controlled by Mr Tapie. In his defence, Mr Tapie says he injected more than FFr300m into the ailing company after buying it in 1983. The trial is expected to last at least until the middle of next week. Mr Tapie faces another case in Paris at the end of the month, followed by a third in early April relating to the company which controlled his yacht, the Phocea. *Andrew Jack, Paris*

East Germans top sell-off league

Privatisation in the transition economies of central and East Europe is progressing "at an uneven pace," a report* from the Organisation for Economic Co-operation and Development claimed yesterday.

"In some countries it is nearing completion, while in others it is barely starting," the report said. Privatisation has generally proceeded more rapidly for small enterprises than for large companies.

Only the former East Germany has virtually completed its privatisation or liquidation of non-viable enterprises.

The OECD report says that the Czech Republic by mid-1995 had privatised or liquidated 81 per cent of its large state-owned enterprises, followed by Hungary with 75 per cent, Estonia, 74 per cent, Lithuania, 57 per cent, Russia, 55 per cent, Latvia, 46 per cent, Slovakia, 44 per cent, Poland 32 per cent, Romania, 13 per cent and Bulgaria 10 per cent.

Among small enterprises, 90 per cent or more have been privatised in Albania, the Czech Republic, Estonia, Hungary, Lithuania, Poland and Slovakia. *Kevin Done, London*

Trends and Policies in Privatisation, OECD, 2 Rue André-Pascal, 75775 Paris Cedex 16, France. Price: $21/DM37.

Gdansk shipyards faced with closure

By Christopher Bobinski in Warsaw

Poland's historic Gdansk shipyards, where Solidarity was born and where Mr Lech Walesa turned a strike over wages into a crusade which brought down communism, is faced with the prospect of closure.

Its main creditor, the state-owned Bank Handlowy, has refused to enter debt reduction proceedings, and yesterday Mr Grzegorz Kolodko, finance minister, signalled the government was not inclined to extend further help to the yards which ran up an 88m zloty ($35m) loss last year.

The cabinet will address the issue next week on the return of Mr Wlodzimierz Cimoszewicz, the prime minister, from a visit to the Far East. "It will be the market and not the government which will be making the decision," Mr Kolodko said on Polish Radio. "If the market's decision is unfavourable then the government will accept it," he added.

Last year, the shipbuilding industry, including the successful Szczecin yards, was badly hit by the strength of the zloty. Ship prices for export customers are fixed in slowly appreciating dollars, but costs are linked to the higher rate of domestic inflation, which rose nearly 23 per cent last year.

The whole industry has been hard hit. But the Gdansk yards, bedevilled by poor management, a politicised workforce and badly negotiated contracts were already threatened with losses. For five years the company felt it could rely on the backing of President Walesa. But he was defeated in last December's presidential election.

> Mr Walesa is still a shareholder. He said after losing the presidency he would return to his old job as an electrician, but has yet to turn up

The Gdansk yards are state-controlled, with 40 per cent of the equity held by the employees, including Mr Walesa who announced his intention to return to his old job as an electrician after losing the presidency but has not yet done so.

Last year the yards, which build bulk carriers, earned 270m zlotys, a 22 per cent increase on the previous year. But it owes 350m zlotys to creditors, of which 200m zlotys is owed to the banks. Bank Handlowy, the biggest creditor, is owed more than 75m zlotys; local utilities are demanding immediate payment of bills worth 15m zlotys.

The Privatisation Ministry is preparing a report on the situation but Mr Wieslaw Kaczmarek, privatisation minister, told parliament the options for survival had been narrowed to finding an investor for the yard or additional government support. Mr Kolodko has now raised an even more painful alternative: closure.

Six vessels are under construction with 26 on order. A restructuring plan by the yard's management admitted most prices would have to be renegotiated if future losses were to be contained.

The plan, termed financially "unrealistic" by analysts, assumed 2,100 of the yard's 7,300 workforce would be laid off.

Market forces close in on birthplace of Solidarity

The Gdansk shipyards still employ 7,300 workers. But poor management and badly negotiated contracts have threatened closure. Lech Walesa (above) leading a Solidarity strike there in 1988

French factory workers flushed with victory

By Andrew Jack in Paris

A French company which attempted to restrict its workers' rights to go the lavatory was yesterday over-ruled in a precedent-setting ruling in a local labour tribunal.

The *conseil des prud'hommes* ruled that Bigard, a meat preparation group based in Brittany which employs 3,000 people around the country, must allow employees complete liberty to respond to their needs, as long as they inform their supervisors.

The ruling followed a decision by Bigard's executives last July to limit nearly 300 employees at a factory in Quimperlé to three breaks of five minutes each for visits to the lavatory at specified times of day – two in the morning and one in the afternoon. Anyone going outside these times had their pay docked.

The action triggered a strike in the town, where nearly a third of the working population is employed by Bigard. The strike was led by the strongest union in the plant, the CGT. "On the eve of the year 2000, it seems aberrant to us to become robots required to go the toilet at fixed times," said Mr Alain Lamouroux, the local representative.

An initial ruling by four members of the labour tribunal last December failed to reach a consensus – the two employee members were opposed to the new rules with the two business members in favour. The independent judge brought in to resolve the stalemate sided with the employees. Mr Lucien Bigard, chief executive of the group, claimed that the conflict was "a false problem" triggered by a "hard-core" of CGT members, who launched legal action last autumn.

However, Mr André Cheminant, the lawyer representing the workers, said yesterday that he had searched in France and beyond without finding any other case of a company attempting to restrict employees' rights in this way.

"This was a first, and I think it will be a last," he said.

Bigard refused to comment yesterday. It has not yet decided whether or not to appeal.

Giving SPD a good name, for a change

Judy Dempsey on the campaign trail in Schleswig-Holstein

For the past two months Heidi Simonis, the prime minister of Schleswig-Holstein and Germany's only woman premier, has travelled the state's flat terrain in an attempt to ensure her Social Democratic party (SPD) is returned to power in elections on Sunday.

The party needs an outright victory. If it were forced to form a coalition with the Greens, who have scored a consistent 9 per cent in the opinion polls, it could jeopardise attempts by Ms Simonis to introduce reforms such as privatisation and the implementation of a transport policy which includes extending the A-20 motorway across the north of the state.

Schleswig-Holstein's Greens are passionate opponents of that transport policy, which would improve links between Scandinavia via the state to the rest of Germany. The recent dispute within the SPD/Green coalition in North-Rhine/Westphalia over the expansion of Dortmund airport has provided a salutary reminder to Ms Simonis of the potential price of a marriage with the Greens.

Ms Simonis needs a convincing win for another reason. Although she is reluctant to discuss her political ambitions, her supporters see her as a potential candidate for chancellor.

The campaign has not been an easy one. Temperatures have rarely been above zero and this ebullient politician, famous for her collection of large hats, has had to contend with a people even more famous for their paucity of words.

Somehow during her tour through 120 towns and villages, Ms Simonis has brought them out. Instead of delivering the usual political monologue, Ms Simonis, often wrapped in a big black woollen cape and topped with a spectacular hat, has chosen to speak for only a few minutes. She appears to seek debate rather than consensus – a "breath of fresh air in the SPD at last", according to one voter.

"People are beginning to speak out a bit more. They talk about the fear of unemployment, the threat to the pension scheme, problems of refugees, cutbacks in the civil service, issues they assumed had been sacrosanct," she says.

Indeed, since taking over the state's SPD leadership four years ago, Ms Simonis has herself chiselled away at certain dogmas in a party considered one of the most left-wing among the SPD-governed states. Stakes held by Schleswig-Holstein in the banks and some industry have been reduced and the receipts channelled into research and development and a new technology centre as the economy shifts from agriculture and shipping to trade and services.

And in spite of complaints from the state's opposition Christian Democrats and Liberal Free Democrats about higher taxes, bureaucracy and increasing environmental legislation, the SPD this year will reduce the budget deficit by DM200m ($135m) to DM1bn largely through social spending cuts.

Mr Peer Steinbrück, the economics minister, says however that one of the main casualties of the cuts has been investment expenditure, which has fallen from 11.8 per cent of total expenditure to 11.2 per cent this year. "It's the price for putting our finances into order," he says.

The SPD managed, last year at least, to keep unemployment in the state below the west German average, recording a rate of 8.1 per cent compared with 8.3 per cent. However, figures for last month show the jobless rate creeping above 9.8 per cent, 0.2 per cent above the west German average. Gross domestic product grew 3 per cent compared with the west German average of 2.2 per cent.

> She brings out her audience, apparently seeking debate rather than consensus – a "breath of fresh air in the SPD at last", according to one voter

Mr Ottfried Hennig, leader of Schleswig-Holstein's CDU, and Mr Ekkehard Klug, FDP leader in the *Landtag*, or state parliament, hold the SPD responsible for the rise in unemployment. In particular, they charge Ms Simonis with imposing a battery of environmental regulations and taxes on the *Mittelstand*, the small and medium-sized enterprises, which have slowed growth or investment decisions.

But in what sounds like frustration with their own parties in power in Bonn, both opposition politicians concede that the CDU/FDP federal government coalition has been no shining example of flexibility, having failed to introduce much-needed reforms including financial and labour market deregulation and even the much-debated longer shopping hours.

Ms Simonis senses this paralysis in Bonn and in the SPD's federal leadership of which she is a member. "There is a sense of frustration among the young people. They are fed up with the bureaucracy, the interference by the state and the sense of paralysis on the federal level. That is why we need another stint in power to push through much-needed reforms. That's my present ambition," she said as her campaign bus rolls into another small town.

Mexico's banks lick their wounds

Gloom marked bankers' annual get-together in Cancún sun, writes Leslie Crawford

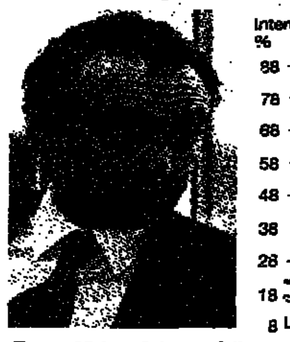
The annual get-together of Mexican bankers, held last weekend in the sunny resort of Cancún, had all the levity of a convention of undertakers.

In open-necked shirts and tropical suits, the assembled bankers surveyed the wreckage of last year's financial crisis and the mortality rate in their midst. Of the 18 banks privatised four years ago, six have collapsed and have been placed under government control. Others, their capital wiped out by bad debts and mismanagement, have been taken over by foreigners.

Mr José Madariaga, president of the Association of Mexican Bankers, does not even own his bank any more. Mr Madariaga's Probursa was the first to capitulate to foreign ownership when Banco Bilbao Vizcaya of Spain, a minority shareholder until last June, took control and recapitalised the bank to stem the financial haemorrhage caused by heavy loan losses.

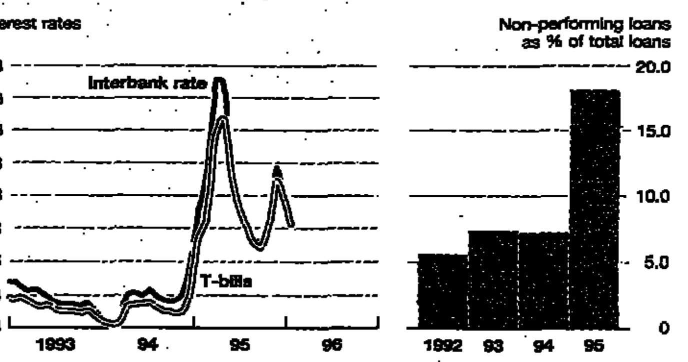
Mr Madariaga opened the proceedings in funereal mood. "In the cauldron of the crisis," he said, "Mexican banks have reached the very limits of survival".

The severe recession last year, the worst since 1932, caused bank deposits to plunge 18.5 per cent. Funding had been slashed 21.5 per cent. Non-performing loans had almost trebled to 137bn pesos, equal to 18.3 per cent of the banking system's total loan portfolio. In the US, banks are deemed to be in trouble when their bad loans rise above 3 per cent of the total.



Finance Minister Guillermo Ortiz: urging bankers to start lending again

Mexico: high rates and bad debts weigh on bankers' minds



Source: National Banking Commission and Association of Mexican Bankers

Mr Madariaga might also have mentioned, had it not already been painfully obvious to the assembled figures of finance, that they were all considerably poorer as a result of the financial crash that followed the devaluation of the peso in December 1994.

As bad loans mounted in the system, bank shareholders were forced to reach deep into their pockets to recapitalise their institutions. Nevertheless, most Mexican banks are now worth less than what their owners paid for them in 1992, while the combined stock market value of Mexico's financial groups is only one-third of the $30bn they commanded before the devaluation.

To add insult to injury, Mr Madariaga complained that banks were being unjustly blamed by Mexican society for the hardships imposed by the economic slump.

To underline his point, a group of angry debtors briefly stormed the convention hall on Saturday. The militant tactics of Mexico's debtors' movement, known as *El Barzón* ("the yoke"), have been the nightmare of Mexican bankers since the crisis began. The demonstrators only abandoned the hall after being promised a meeting with banking authorities. Their scattered leaflets called for immediate debt forgiveness and an end to the "usury" of Mexican banks.

Mr Eduardo Fernandez, Mexico's chief bank regulator, had few words of comfort at the convention. Emergency schemes to keep banks solvent and provide interest relief for small debtors would cost the government an estimated 5.5 per cent of gross domestic product (about $11bn), Mr Fernandez said. But he offered little hope of more government help in the future.

Regulation would become stricter, he declared. From the middle of the year, Mexican banks will have to start following US accounting practices, a change expected to swell non-performing loans by 70 per cent, according to Mr Fernandez's calculations. Banks will also be required to hold greater reserves against currency and interest rate risks and equity positions.

Mr Fernandez urged bankers to speed negotiations with corporate clients who are struggling through the recession with heavy debts. The government, he said, would seek to create a market for discounted loans by liquidating the assets of the banks under government control. The government was also working to remove legal obstacles in the way of the securitisation of mortgages, another area where loan defaults has been high.

"We need more imaginative formulas to speed the debt-restructuring process," Mr Guillermo Ortiz, finance minister, told the conference, without illuminating what these might be. He exhorted bankers to go forth and start lending again, particularly to cash-starved small and medium-sized companies, without indicating when interest rates might begin to fall. He offered no hope of a relaxation in fiscal or monetary discipline, without which, he said, Mexico would not be able to resume sustained growth.

The mood at the convention did not lighten with the arrival of Mr Larry Summers, under-secretary at the US Treasury, who dropped into Cancún for two hours to exhort Mexico to "rely ever more on market forces" and speed its privatisation programme, which has run into political difficulties in Congress.

Thumping the podium, Mr Summers told some of the richest men in Mexico that economic development could not be achieved without a more equitable distribution of wealth, and he warned them against the temptation of laundering drug money. "Those who traffic in the profits [of drug traffickers] must not go unpunished," he said.

Outside the conference hall, there was little evidence of the backroom deals that buzzed in conventions past. Foreign bank representatives said there was little appetite to lend to Mexico's troubled banks. They had mainly come to assess the situation, before heading for the Caribbean sun.

Divided opposition may kill Chile reform

By Imogen Mark in Santiago

Efforts to reform Chile's constitution, inherited from the military dictatorship of President Augusto Pinochet, now seem certain to be defeated because of serious divisions within the National Renovation, the main opposition party.

The package, proposed to Congress last August by President Eduardo Frei, aims to reform what government parties say is the undemocratic nature of the 1980 constitution, which set up a series of non-elected bodies to act as checks on the power of congress and the president.

There are, for example, designated senators, four of them named directly by the armed forces and still under the influence of the outgoing military regime. These have given the opposition a built-in majority in the Senate over the past six years, and continue to block the present initiative to vote them out of existence.

However, the cost of rejecting the package may be greater for the opposition than for the government. The chances appear high that the National Renovation party will split over the issue, at the same time dividing the right-wing opposition alliance.

A recent opinion poll carried out by CEP, a liberal think-tank, shows a solid majority of Chileans think that the constitution should be changed. This means that a divided opposition could lose a lot of votes in upcoming municipal elections this October and in congressional elections in December 1997.

Government parties may be able to capture votes on the strength of the perception its former military rulers are still influencing national politics and distorting democracy.

Mr Andres Allamand, National Renovation's president, said at the weekend that if the hardliners in his party, grouped around seven of its 11 senators, continued to defy the party mandate to vote in favour of constitutional reform next month, then "the centre-right will be committing a monumental and historic mistake, with enormous implications."

Sogemin suspends three US staff

By Kenneth Gooding, Mining Correspondent

Three US employees were yesterday suspended by Sogemin, the London Metal Exchange trading company owned by Union Minière, the Belgian metals group.

This followed the issue of an amended writ in the London High Court by Chile Copper Corporation (Codelco), which is suing Sogemin over losses the state-owned group suffered in the LME's copper market.

Two of the employees were named in the writ: Mr David Davis, chief executive of Sogemin's US subsidiary, and Mr Paul Tweddle, a trader.

Sogemin said the two men – and a third employee it refused to name – had been suspended while further inquiries were made. The company said it "will continue to defend these proceedings vigorously and will consider appropriate action arising from an investigation into these allegations".

Codelco issued its first writ against Sogemin in December. Mr David Natali of Herbert Smith, Codelco's solicitors in London, said yesterday the writ had now been broadened and included claims against Mr Davis and Mr Tweddle.

He said investigations continued in the UK and elsewhere and promised there would be further developments in London, the US "and conceivably in other jurisdictions as well".

Codelco lost about $170m through speculative trading in the LME's copper market between 1990 and 1993. Mr Juan Pablo Davila, the group's former head of futures trading, was charged last year with fraud against the state. He dealt with 22 other LME brokers as well as Sogemin.

The Chilean group has made it clear the writs did not refer to the $170m losses but that it was trying to recover only what it claimed were excessive commissions and other allegedly improper payments made during 1990-93, plus interest and damages.

Muddy lake and nine trout bring misery to mining giants

By Bernard Simon in Toronto

Canada's mining industry is starting to wonder whether government fisheries officers have too much time on their hands.

Their zeal as piscatorial guardians first came to the fore when a deal last year to buy a gold and copper mine at Kemess, British Columbia, was held up by protracted negotiations over the fate of nine trout found in streams where a tailings dam was to be built.

Then last week, the Canadian subsidiaries of two multinational mining companies, UK-based RTZ and Australia's BHP, appeared in court in the Northwest Territories on several charges of violating the fisheries act. If found guilty, BHP Canada and Kennecott Canada could face fines of over $500,000 each.

The two companies have unearthed vast diamond deposits in northern Canada over the past few years. BHP is on the verge of building a C$500m (US$365m) mine at Lac de Gras, 300km north-east of Yellowknife, the Northwest Territories' capital.

The charges allege, among other things, that the companies deposited "a deleterious substance in water frequented by fish," and harmfully altered or disrupted a fish habitat.

The prosecutor in the case declines to elaborate. But the charges appear to centre on allegations that drills used to extract rock samples from below two lakes on BHP and Kennecott properties have turned the lake water muddy. No fish have died and no toxic chemicals have spilled into the lakes. BHP estimates 91 adult fish live in one of the lakes.

BHP is confident the waters of Misery Lake will clear again as the spring thaw sets in. In any case, the lake is one of five, ranging in size from 14 to 62 hectares, that will be pumped dry in coming years to gain access to the diamond-bearing kimberlite pipes beneath them. BHP plans to save sediment from the bottom of the lakes in the hope of using it to nurture new plants. It has promised to restore all five lakes at the end of the mine's estimated 20-year life. BHP has pleaded not guilty, while Kennecott has yet to enter a plea.

Mr Kevin O'Reilly, research director of the Canadian Arctic resource committee, a local environmental group, says that "if you put anything into water that may be harmful to fish, you're guilty."

The muddy waters were apparently first spotted by fisheries inspectors from the air. They are expected to base their case partly on a recent government report which recommended that more research was needed on the possible toxicity of kimberlite rock.

The fisheries department says it is simply doing its job. Mr Gerry Swanson, director-general of habitat management, says the negotiations at the Kemess mine have involved more than nine trout. "We're looking at the capacity of the river, lake or stream to produce fish," he says.

The mine owners and the fisheries department, however, are still hoping for a compromise on the issue.

As for the muddy Arctic lakes, Mr Swanson says that "our staff investigated a complaint, consulted with the department of justice, and it was decided it was appropriate to lay charges."

The mining industry has a different perspective. The Northern Miner, a trade journal, concluded in a recent editorial that "the collapse of the east coast fishery and the near-decimation of west coast salmon stocks have left a lot of Canadian fisheries officers with not a heck of a lot to do."

NEWS: THE AMERICAS

Clinton: resisting the relentless pressure from big business

Clinton digs in heels on business law

By Richard Waters in New York

Ambitious plans to overhaul the US's system of assessing civil damages appear to have collapsed, following an announcement by President Bill Clinton that he would veto any legislation which sought to limit the damages awarded against manufacturers in product liability cases.

The move is a further example of the president's growing willingness to stand firm against business-friendly legislation promoted by the Republican Congress.

On Saturday, Mr Clinton said he would refuse to sign into law a bill which would limit damage awards over faulty products, since this would benefit "irresponsible companies willing to put profits above all else" by "knowingly manufacturing and selling defective products."

The bill, which had been expected to be presented for his approval within days, was the last vestige of a much broader reform of civil damage suits once proposed by Congress. The legislation had been progressively narrowed in scope. In its latest form, it would limit the punitive damages against a manufacturer in a federal court case to $250,000, or, if greater, twice the actual damages awarded.

While federal legislation has foundered, however, a number of states have taken action themselves to limit damage awards in cases involving such things as product liability, medical malpractice and bodily injury cases.

Mr Clinton demonstrated a similar willingness to veto probusiness legislation late last year with an attempt to block a securities litigation reform bill, which was designed to insulate companies from some shareholder suits. That veto, though, was overriden by a large majority in Congress. This route does not appear possible for the product liability bill, given its narrower base of support in Congress.

The president's critics have accused him of being in thrall to a powerful lobby group of lawyers, who benefit from laws which give consumers and others greater powers to sue companies. Those allegations resurfaced over the weekend as Mr Bob Dole, frontrunner for the Republican presidential nomination, lambasted the president over his declared intent to use his veto power.

Mr Clinton has also made clear his determination to stand in the way of proposed changes to environmental laws. Last week he accused Congress of "gutting federal safeguards to cater to corporate interests."

That battle could come to a head this spring as Congress struggles to agree an overhaul of the Superfund legislation after two years of effort. Chemicals companies, insurance groups and other business interests have complained that the current legislation, which seeks to share the cost of cleaning up contaminated industrial sites, is unfair and leads to excessive amounts of litigation.

Patti Waldmeir on disillusionment with parties gripping Michigan's edgy workers

Swing voters wake from American dream

US ELECTIONS
November 5

In the 1950s Macomb County, Michigan, was a stage-set for the American dream. Now, it is the backdrop to its crisis. With the Republican presidential primary contest effectively over, areas like Macomb – home to millions of disaffected voters – take centre stage in the campaign for the November presidential election. This is the land of the "swing voter", who has been critical in determining the outcome of presidential elections for a decade.

Macomb County made such voters famous in the 1980s, and gave them a name: "Reagan Democrats", the blue-collar voters who deserted the party of their class and their birth, to vote for a Republican president. Today, they will vote along with other Rust Belt states in Republican presidential primaries which will virtually seal Senator Bob Dole's nomination as his party's candidate in November.

Once the most Democratic suburb in the nation, Macomb voters last chose a Democrat for president in 1968. They voted twice for President Ronald Reagan, and twice for President George Bush (most recently against Mr Bill Clinton). But given a third choice, in 1992, 22 per cent chose Mr Ross Perot, the independent candidate.

Local politicians say the area is now roughly split: one-third Republican, one-third Democrat, and one-third independent.

Mr Clinton's pollster in the 1992 campaign, Mr Stanley Greenberg, says Macomb is emblematic of a larger crisis in American political life. In his book Middle Class Dreams: the Politics and Power of the new American Majority, he uses Macomb in his argument that both major parties have betrayed those dreams, leading to "the collapse of the dominant political traditions that organised American politics for nearly a century". He says the 1996 presidential election will be won by the candidate who best understands Macomb's sense of betrayal.

This was a community of true believers, people who bought into the American dream, and the Democratic New Deal which was supposed to help make it happen. Both dreams paid off for them in Macomb: working class people, most without college degrees, rose to middle class prosperity and status, with the help of the trade unions and the Democrats.

The matchbox brick houses of St Clair Shores, Roseville and Warren were tiny, featureless, and ranged in rows of numbing uniformity: but the new residents, most of them immigrants from poor Detroit families who came to work in the motor industry, owned and cared for them with pride.

Each family had a car, a full refrigerator, a secure breadwinner, and aspirations for the future. Macomb seemed to fulfil the Democratic party promise: that government could help working people prosper. In return, loyalty to the party was assured.

Now, says Mr Richard Sabaugh, son of a carworker who emigrated from Detroit to suburban Warren, "people have given up on parties."

"It used to be that the Democrats were the party of the working person and the Republicans were the party of the rich. It's just not like that any more."

Mr Sabaugh, who served as a Democratic councillor for 20 years, is now a Republican. But many, perhaps most other "Reagan Democrats", would say they are independents.

They will cross class and party lines to vote for any candidate who speaks to their concerns: job insecurity, technological change and disgust with politicians.

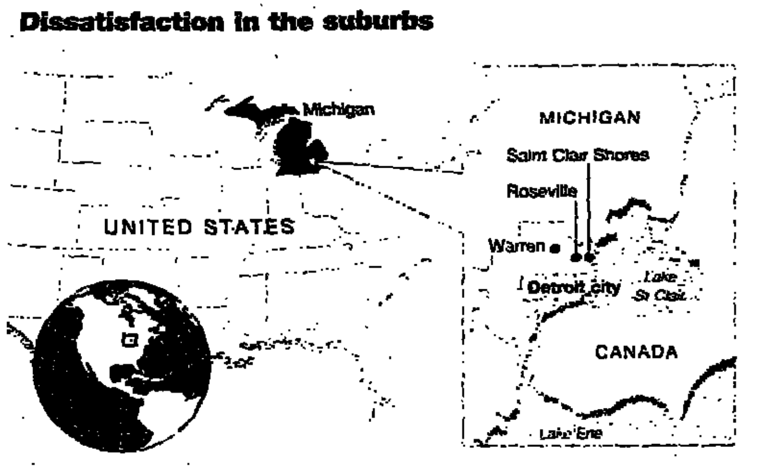
That makes them an unpredictable, potentially volatile electorate, happy to elect a US congressman, Mr David Bonior, who is one of the most liberal of Democrats, while also choosing one of the most conservative of Republican governors, Mr John Engler.

They are electoral free agents, easily swayed by candidates such as Mr Pat Buchanan, economic nationalist and class warrior. Macomb County's Republican primary vote today will be an important test of his support.

Many factors destroyed Macomb's devotion to the Democrats: first, and most powerfully, was "busing", the Democrats' plan to integrate local schools by transporting black and white schoolchildren across racial boundaries.

Pure-white Macomb – which remains overwhelmingly white today – revolted. Over time the perception grew that the Democratic party cared more for black welfare mothers in Detroit than for "Joe lunchbox", Macomb's angry white male.

Dissatisfaction in the suburbs



Reagan Democrats, many of them immigrants, had no historical memory of racist oppression, and felt no obligation to make amends for it. They believed the Democratic party had turned its back on the working man: they replied in kind.

Trauma in the motor industry, which shed half its workforce between 1973 and the end of the 1980s, exacerbated their sense of betrayal. While the Democrats seemed powerless to ease their distress, Mr Ronald Reagan lifted their spirits with his vision of "morning in America". Mr Reagan is still lauded as a hero: one local talk show host last week compared him, to great acclaim from his listeners, to George Washington and Abraham Lincoln.

But devotion to Mr Reagan does not mean loyalty to his party and Macomb's electoral character remains strongly independent.

More than anything, Macomb voters specialise in the politics of rage. Many resent the fact that they are working harder to earn less. Most simply dismiss the figures for strong economic growth as the cynical manipulations of economists and politicians: they do not feel better off (partly because of a pronounced shift from high-wage motor industry jobs to low-wage retail employment). Even if they do, they doubt good times will last.

That leaves Macomb's state of mind profoundly out of step with current economic reality; and the discontent feeds on itself, with every news report or candidate appeal to the "downsized" American worker.

Dole ponders Midwest running mate

By Patti Waldmeir in Lansing, Michigan

Senator Bob Dole, frontrunner for the Republican presidential nomination, wound up his campaign for today's Midwest primaries alongside the man who could emerge as his running mate: Governor John Engler of Michigan.

Today's primaries are likely to confirm the 72-year-old Senator as the likely Republican candidate for president – making him the oldest man ever to launch a bid for the White House. Attention is now focusing on his choice of vice-president. Under the US constitution, the vice president succeeds to the presidency if the incumbent dies or is incapacitated in office.

Mr Dole is believed to be considering the popular Republican governors of all states which vote today – Michigan, Wisconsin, Illinois and Ohio – as potential running mates. President Bill Clinton carried all four states in 1992, and winning them this year would be crucial to a Republican upset.

Speculation has focused on Mr Engler because of his zealous campaign for welfare reform in Michigan.

Since becoming governor in 1990, he has taken a lead in nationwide efforts to cut the cost of welfare by encouraging the Michigan unemployed to find work, by paying for social services such as childcare. The governor is widely popular in his home state, where he has cut taxes 21 times since 1990.

Mr Engler, a strong advocate of shifting power from Washington to the states, yesterday dismissed speculation he might be Mr Dole's running mate. But he said he would consider the post if asked.

Mr Engler's views on abortion – he opposes it – could prove more palatable to Mr Dole than those of another speculative running mate, retired Gen Colin Powell, who supports abortion.

At the weekend Gen Powell expressed annoyance that his name was so frequently bandied, speculation that the majority leader has himself intermittently fanned.

Three other Midwestern governors are also seen as possible contenders for vice president: Mr George Voinovich of Ohio, Mr Tommy Thompson of Wisconsin and Mr Jim Edgar of Illinois.

EU reaffirms ban on meat hormones over US objection

By Caroline Southey in Brussels

European Union agricultural ministers yesterday agreed to introduce tighter controls and tougher sanctions to improve the Union's controversial ban on the use of growth-promoters in meat production, reaffirming the EU's commitment to a regime which includes a ban on imports of hormone-treated meat.

The decision sets the Union on a collision course with the US, which has challenged the ban on imports through the World Trade Organisation. It also rules out any compromise being found between the two during their first round of consultations next week. The US complaint has been backed by Australia, New Zealand and Canada.

Britain alone voted against the proposals, arguing that it was "premature" to take a vote reinforcing the regime before the WTO consultations. Britain has opposed the ban since its introduction in 1988, arguing that Union policy on growth promoters should be based on scientific evidence.

A recent scientific conference in Brussels, attended by 80 leading international scientists, concluded that there was "no evidence of human health risk arising" from the controlled use of five hormones – oestradiol beta 17, progesterone, testosterone, zeranol and tenbolone. The five are banned in the EU but not the US.

But Mr Franz Fischler, EU commissioner for agriculture, said yesterday that the EU's policy was not "simply a question of scientific evidence. It is also based on the need to prevent falls in meat consumption in the EU. The only course we can see is to defend the ban at the WTO."

He said tighter controls were in the interests of the consumer and were based on the conclusions of the conference, which had criticised existing preventive measures as inadequate.

The farm ministers agreed new measures to improve implementation of the hormone ban within the EU. These include stricter controls on enforcement by shifting the emphasis of inspections to live animals. Member states will be obliged to carry out more more frequent, and random, checks of farms and slaughterhouses.

Farmers will also face tougher fines if they are caught using banned substances. If a farmer is found treating a cow with any one of the banned hormones, premiums for the whole herd will be withheld for a year. At present farmers are penalised only for those animals treated with the hormones. On a second offence, premiums will be withheld for up to five years.

In the medium term, states will be left to decide how best to levy charges against producers to meet the increased inspection costs, although the Commission will look into a harmonised financing scheme.

Ministers also agreed to extend the ban to beta-agonists, which are designed for veterinary use, such as helping horses with respiratory problems and cows with calving difficulties, but which are open to misuse as growth-promoters.

Bataan N-plant to be converted

By Edward Luce in Manila

The Philippine government yesterday said it would open the controversial Bataan nuclear power plant to international tender for conversion to a gas-fired station, 10 years after it was mothballed for safety reasons.

The decision comes five months after the government struck a $100m out-of-court settlement with Westinghouse, the US company which allegedly overcharged the Philippines for the $2.1bn plant on an earthquake fault line. The tender means that up to 3,000MW of new capacity will be up for bidding this year.

In addition to the 620MW nuclear plant, which will be converted to a 1,500MW gas-fired plant within four years, the government announced new dates for the rebidding of a 1,200MW gas-fired plant in Batangas, cancelled last year.

More than 16 companies, including Bechtel, Enron and Marubeni, plan to submit bids for the Batangas project, which had originally been connected to the conversion of the Bataan nuclear plant on an "either/or" basis. Under yesterday's decision both plants will be tendered separately later this year.

"We came to the conclusion that demand for energy in the Philippines is rising fast enough to accommodate another 3,000MW by 2001 or afterwards," said Mr Guido Delgado, president of the National Power Corporation (Napocor), which is to be privatised next year.

Napocor says the government hopes this will end the long controversy over both plants. Consolidated Electric Power Asia (Cepa) of Hong Kong was disqualified as winning bidder for the $1.5bn Batangas plant last year for including Westinghouse 501F gas turbines in its proposal.

Cepa, which has not yet decided whether to participate in the rebidding in September, failed to persuade the government that Manila's subsequent deal with Westinghouse should retrospectively validate its original bid. Under the settlement, Westinghouse gave two 501F gas turbines worth $30m apiece to the Philippines, plus $40m in cash. The government has invited bidders for the second round to include the Westinghouse turbines in their proposals.

The government also said yesterday that it would bar one company from winning both bids. Gas for the two plants will be supplied from the Malampaya gasfields in the Philippines, which are under the joint management of British Gas and Shell Pilipinas, the local arm of the Anglo-Dutch group.

Amtrak in order for high-speed trains

By Richard Tomkins in New York

The first high-speed passenger trains to operate in the US are scheduled to start running between Washington, New York and Boston in 1999, following a decision to press ahead with the project by Amtrak, the body that operates passenger trains in the US.

Amtrak has chosen Bombardier of Canada and GEC Alsthom, an Anglo-French consortium, to provide a custom-built fleet of 18 trains that will travel the route at speeds of up to 150mph. The contract is worth $611m.

At present, top speeds on the line are 125mph between New York and Washington and 100mph between New York and Boston. The new trains will use technology that allows them to lean into curves, making higher speeds possible on existing tracks.

The announcement reflects an awakening of interest in high-speed rail travel in the US. Last month Florida said it had chosen a private sector consortium to build and operate a high-speed railway system between Miami, Orlando and Tampa at a cost of $4.8bn.

Florida's plan is more ambitious than Amtrak's because it involves the construction of new, high-speed railway lines, enabling trains to travel at 200mph or more. But the project faces a number of uncertainties and is not due for completion until 2004.

The total cost of Amtrak's project is $1bn, of which $321m is being spent on the electrification of a stretch of line between New Haven and Boston. At present, electric trains have to make a time-consuming switch to diesel locomotion for this leg of the journey.

Amtrak, which is owned by the US federal government, said the new trains would use many of the best features of those developed by GEC Alsthom for France's TGV network, but they would be custom-built in the US to suit the needs of the domestic market.

Amtrak had earlier experimented with several European train designs such as Sweden's X2000 tilting trains and Germany's TGV-style InterCity Express. Its decision to choose a custom-built train appears to reflect the wide differences between countries' railway systems, making it difficult for operators to find suitable off-the-shelf products.

In an unusual public-private sector financing arrangement, Bombardier and GEC Alsthom will meet the cost of building the trains, hoping to recoup their investment by taking a slice of the fare revenues. Amtrak believes the trains will more than cover their costs on this busy route.

WORLD TRADE NEWS DIGEST

Conoco to seek oil off Taiwan

Conoco, the US oil concern, has joined forces with Taiwan's state oil monopoly, Chinese Petroleum (CPC), to explore for oil and gas in the Taiwan Strait. Under a deal signed yesterday, Conoco will invest at least $65m to develop 13 wells over five years. Conoco, the energy arm of Du Pont, the US chemical concern, will take a 75 per cent stake in the venture, but CPC has the option to increase its holding to 50 per cent later.

Taiwan is heavily reliant on energy imports to fuel its fast growing economy and the project is in line with efforts to develop its own energy sources. Production is to last 20 years and CPC will buy all the oil and gas produced to supply the domestic market.

Mr Archie Dunham, president and chief executive of Conoco, said the Taiwan venture was part of the company's strategy to expand its presence in Asia. China, angered by what it perceives as Taiwan's drive for independence, has staged missile tests close to Taiwan's two biggest ports and two rounds of military exercises in the Taiwan Strait this month. However, both Taipei and Beijing appear determined to keep their political differences separate from economic issues of mutual benefit. *Laura Tyson, Taipei*

Optimistic Boeing to lift output

Boeing, the US aircraft maker, yesterday followed up its recent, optimistic forecasts for worldwide air travel over the next 20 years by announcing increases in aircraft production rates planned for 1997.

The Seattle-based company said its decision, which will involve three of its models, reflected the positive market outlook for new aircraft.

Boeing expects total deliveries this year of all its aircraft types to reach about 215. In the first quarter of next year, the company will raise the 737 model production rate from 3.5 aircraft a month to 10, while the 757 model will return from a monthly output of three to four. *Michael Cassell, London*

Uruguay Round tops agenda

Implementation of the Uruguay Round of global trade talks will be the main item on the agenda for the World Trade Organisation's first ministerial meeting in Singapore next December, senior trade diplomats agreed yesterday.

WTO ambassadors, meeting for the first time to discuss plans for Singapore, also gave broad backing to a five-point outline agenda put forward by Mr Renato Ruggiero, WTO director general. In addition to implementation issues, the proposed agenda also covers current WTO negotiations, trade and the environment, possible new issues for WTO talks, and further liberalisation measures.

Trade officials said the US again made clear it would press for WTO work on bribery and corruption in public procurement, and the link between trade and labour standards. Developing countries have already said they oppose inclusion of labour standards. *Frances Williams, Geneva*

Chicken solution nearer

Russia appears closer to resolving a dispute with Washington which has threatened to stop imports of US frozen chicken. Russia's chief veterinary inspector yesterday said Moscow was not yet issuing new import permits for the US poultry but he hoped to remove remaining obstacles in the coming days.

Earlier this month Russia accused the US of shipping poor-quality produce and the Russian poultry industry has complained about dumping by foreign producers and urged the government to intervene to protect local farmers. The dispute has already hit US chicken exports to Russia, which amounted to $500m in 1995. *Foreign Staff, London*

Contracts and ventures

■ Optus Vision, the Australian cable consortium, has placed a A$180m (US$137.4m) contact with Motorola of the US for telephony interface equipment. Motorola's CableComm equipment will be delivered in the second quarter of 1996. Optus Vision intends to use the cable network to provide a local telephone service, as well as pay-TV and other interactive services. A key member of the consortium is the Optus telecommunications company, established to compete with the government-owned Telstra group. *Nikki Tait, Sydney*

■ Mitsubishi Electric and Mitsui of Japan will set up a semiconductor joint venture in Beijing with a local electronics company. Mitsubishi said the partners would invest Y10bn ($95m) in the plant, which aims to produce 5m computer chips a month from May 1997, with output rising to 10m a month in 1996 to meet growing demand in China. *AFX, Tokyo*

Piracy on the high Cs

Italy is a significant source of illegal recordings in Europe, but the music industry is planning to fight back, reports **Andrew Hill**

Before the last note of Italy's San Remo music festival had died away three weeks ago, two rival production lines had sprung into action. One was producing the authorised recording of the festival's competing songs; the other a careful copy, which even trumped the original by including artists who, for copyright reasons, were excluded from the authorised version. Both the legitimate and the pirate recordings were on sale within days.

For the international music industry, the pirated San Remo cassette is a powerful example of why music piracy must be stamped out in Italy. Not only is San Remo Italy's glitziest celebration of popular music, it is also a launch pad for new Italian stars, and a showcase for established foreign artists. If the music industry is to be believed, all are under threat from piracy.

Last Friday, European music moguls came to Rome to launch a new $1m campaign to clamp down on illegal recordings. Although they claim one aim is to preserve Italian culture, it is not their only concern: many of the illegal cassettes and compact discs produced in Italy are exported. Tip-offs about Italian pirates come from as far afield as Los Angeles and New York. According to FIMI, the Italian industry federation, as many as 95 per cent of all illegal recordings seized in the UK in 1994 were produced in Italy.

The scale of Italian piracy is even beginning to embarrass European music industry and trade officials in their campaign against illegal recordings from outside Europe. Mr Nicholas Garnett, director-general of IFPI, the international music industry federation, says that when European and US governments recently lodged a complaint against Japanese music piracy, Japanese officials said Italy should put its own house in order first.

The question, according to Mr Rupert Perry, president and chief executive of EMI Europe, is: "Does [Italy] want to be known as a third world country in relation to a very important part of their culture? I don't think so."

IFPI, FIMI, and their new Milan-based anti-piracy unit, hope they can repeat in Italy the success of a campaign launched in Spain in the late 1980s. It reduced pirate recordings as a percentage of total sales from 30-35 per cent – about the same level as in Italy – to less than 5 per cent.

The industry's first line of attack is to improve the legal deterrents against piracy in Italy, mainly based south of Rome and almost certainly backed by organised crime.

Italian police are already acting against the criminals. They raid illegal operations and check on legitimate CD producers, which can easily run a parallel pirate business, counterfeiting CDs to be sold alongside the real thing. But IFPI says the Italian legal process is slow, prosecutions are few, and fines insufficiently heavy. At meetings on Friday with police officers and officials of the Italian interior and justice ministries, industry representatives called for new laws and better enforcement of old ones.

More sensitively, the record industry needs to persuade the Italian public not to encourage piracy by buying bootleg or pirate recordings.

The anti-piracy unit has ruled out attempts to harry consumers, though the police can already prosecute those who knowingly buy pirate discs and cassettes. Instead, the industry plans to appeal to consumers' desire to support local talent. There are plans for an awareness campaign of leaflets and posters, featuring Italian stars.

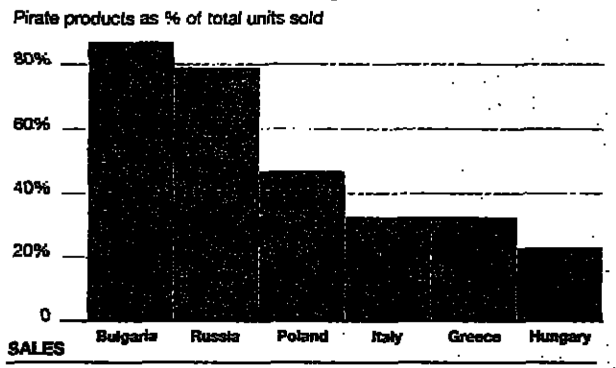
If it is to force illegal recordings out of the shops and street markets, the industry will also have to convince the consumer it is worth paying more for legal recordings. That may be hard, as the average Italian spends just L12,000 ($7.70) a year on recorded music – only slightly more than the average Mexican – and a legally produced compact disc costs more than L30,000.

Industry representatives naturally deny that steeper CD prices may be encouraging consumers to look for cheap alternatives. But they do believe that eradicating piracy will enable the industry to hold down its prices, as the volume of legitimate sales improves. "The market increased so substantially in Spain, that the record companies did not need to increase prices over time," according to Mr Paul Russell, president of Sony Music Europe.

If that is the carrot for Italian pop fans, then the stick is the possibility that bootlegging and piracy could eventually deter big international stars from touring Italy. As Mr Russell puts it: "At the end of the day, artists come to realise that [piracy] is starting to screw their market up on a worldwide basis. They avoid coming because they are nervous about what might happen to their repertoire outside Italy."

Pirate music sales: Europe's worst offenders

Pirate products as % of total units sold



SALES	Bulgaria	Russia	Poland	Italy	Greece	Hungary
Legitimate	US$1.5m	186.9m	108.25m	534.7m	100.7m	50.4m
Illegal	US$7.1m	288.8m	25.1m	142.2m	27.6m	14m

Source: IFPI

America free trade zone talks

By Sarita Kendall in Cartagena

More than 1,000 business leaders today meet in Cartagena, Colombia, to discuss how the private sector can participate in the creation of the Free Trade Area of the Americas (FTAA), an ambitious goal to create the world's largest free trade zone with 750m people.

The decision to aim for a free trade area by the year 2005 was announced in Miami 15 months ago, but political and economic events have since taken their toll and the parallel meeting of 34 trade ministers, which starts tomorrow, would benefit from an injection of practical proposals and private sector enthusiasm.

Mr Jorge Ramirez Ocampo, president of the Colombian exporters' association and organiser of the Business Forum, said it would present concrete proposals to ministers. Progress so far shows that the integration process can go on despite political crises in Colombia and other countries, said Mr Ramirez Ocampo. "For the moment we have to construct routes and open doors, not eliminate alternatives."

The ministers will be reporting on progress made by the seven working groups set up in Denver last June to examine specific issues. Four more groups, including one covering intellectual property rights, are expected to emerge from the Cartagena summit.

Many fundamental questions about the creation of the FTAA still have to be answered. Some view existing regional trade accords – there are at least 24 – as the basis for negotiations. However, the accords vary enormously in strength and coverage with, for example, the Andean Pact limping along and Mercosur extending its horizons both within and beyond Latin America.

Another route could be the expansion of the North American Free Trade Agreement to all countries in the region, but this seems less attractive since the failure to grant Chile a "fast track" entry to Nafta this year. The US administration continues to affirm a commitment to extending Nafta throughout the Americas, but the outlook for further Nafta-type arrangements any time in the near future is bleak, according to Bogota-based diplomats.

US relations with Latin American countries are not at their best following the imposition of further sanctions against Cuba, the growing immigration problem and the drug certification process.

Colombia's position as host to the US secretary of commerce, Mr Ronald Brown, is particularly uncomfortable following Washington's de-certification of Bogotá's anti-drug efforts at the beginning of March.

A new US law aimed at curbing foreign investment in Cuba could cast a cloud over the Cartagena meeting as Nafta partners Canada and Mexico are at odds with the US over the issue.

Chile and the four nations of the Mercosur customs union are close to an agreement on associate status for Chile, following successful negotiations between the technical committees, writes Imogen Mark in Santiago.

Chile conceded some ground on one of the main obstacles – its claim to maintain the traditional farming sector outside the terms of the pact. Last week the two sides agreed that import tariffs on 90 per cent of Chile's trade with Mercosur would be reduced to zero within eight years. Tariffs on the other 10 per cent, which includes farm products such as wheat, oil seeds, sugar beet, milk and meat, will be reduced more gradually, to reach zero within 15 to 18 years. In exchange Chile obtained concessions on tariffs for wine, tinned fruit and tomato paste.

Outstanding issues remain to be negotiated between Chile and Argentina, which maintains special tariffs on goods from non-Mercosur nations and anti-dumping mechanisms, which Chile wants eliminated. Both Chile and Mercosur would like to be able to announce a formal agreement on Chile's admission by the end of the month, when Chilean President Eduardo Frei is due to visit Argentina and Brazil.

Latin America fund to meet infrastructure needs

A new fund to provide finance for infrastructure projects in Latin America is being created with the backing of two powerful US financial groups, GE Capital and American International Group, **Stephen Fidler, Latin America Editor, writes.**

The fund, which is aiming to attract $1bn from institutional investors, is being put together by the Emerging Markets Corporation, a Washington-based partnership whose principals are Mr Moeen Qureshi and Mr Don Roth, both formerly senior figures at the World Bank. AIG and GE Capital, will provide up to $150m each for the fund.

Mr Qureshi's group has already successfully established a $1.08bn Asian infrastructure fund. The Latin American fund will run along similar lines, although – because credit concerns about lending to Latin American countries are greater – the Latin fund will have close links with organisations such as the InterAmerican Development Bank. Such links were not seen as necessary with the Asia fund.

Mr Everett Santos, formerly director of infrastructure investments at the International Finance Corporation, the World Bank's private sector arm, will have the main day-to-day advisory responsibility for the fund.

The aim, Mr Qureshi said, was "to attract long-term institutional investors, such as pension funds and insurance companies, into infrastructure finance". The main constraint to infrastructure finance in the region was a shortage of long-term debt, rather than equity, he said. It was expected that 80 per cent of the fund would be invested in Argentina, Brazil, Chile, Colombia, Mexico and Peru.

He said the region's new investments in infrastructure were estimated to reach $1bn a year for the next decade. Because of constraints on public sector budgets in Latin America, governments are increasingly turning to private sector finance to meet infrastructure needs.

Mr Martin Chrisney of the IADB estimates the private sector can provide up to a quarter of the finance required for new investment and maintenance in infrastructure over the next decade, some $10bn to $12bn a year.

INTERNATIONAL ECONOMIC INDICATORS: PRODUCTION AND EMPLOYMENT

Yearly data for retail sales volume and industrial production plus all data for the vacancy rate indicator are in index form with 1985=100. Quarterly and monthly data for retail sales and industrial production show the percentage change over the corresponding period in the previous year, and are positive unless otherwise stated. The unemployment rate is shown as a percentage of the total labour force. Figures for the composite leading indicator are end-period values.

■ UNITED STATES

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	91.3
1986	105.5	100.9	6.9	98.3	95.5
1987	108.4	106.0	6.1	106.3	96.6
1988	112.6	110.7	5.4	107.6	100.2
1989	115.6	112.4	5.2	101.4	98.9
1990	116.4	112.4	5.4	87.0	95.1
1991	114.0	110.4	6.6	64.6	100.0
1992	117.6	114.2	7.3	63.9	104.8
1993	123.8	118.2	6.7	69.0	110.5
1994	131.2	125.1	6.0	78.9	112.6
1995		129.3	5.5	79.1	111.6
1st qtr.1995	4.7	5.5	5.5	79.7	112.1
2nd qtr.1995	4.3	3.3	5.6	78.0	111.2
3rd qtr.1995	4.5	3.0	5.6	78.4	110.5
4th qtr.1995		1.5	5.5	79.0	111.6
February 1995	3.9	5.4	5.4	80.9	112.3
March	3.4	4.7	5.4	79.6	112.1
April	3.3	3.9	5.7	79.7	111.6
May	4.8	3.3	5.6	77.1	111.3
June	4.9	2.8	5.5	77.0	111.2
July	4.9	2.7	5.6	79.2	111.2
August	4.5	3.2	5.6	79.3	111.0
September	4.2	3.1	5.6	76.6	110.5
October	2.1	1.9	5.4	79.5	110.4
November	2.8	1.7	5.6	77.3	110.7
December		1.0	5.5	83.0	111.6
January 1996		0.2	5.7	82.1	

■ JAPAN

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	2.6	100.0	76.4
1986	106.6	99.7	2.8	94.3	83.5
1987	113.8	103.1	2.8	108.3	91.2
1988	122.6	113.1	2.5	135.9	96.8
1989	132.5	119.7	2.2	147.0	98.9
1990	141.7	124.5	2.1	149.8	96.0
1991	144.8	126.8	2.1	144.2	93.1
1992	139.9	119.0	2.1	124.2	92.0
1993	131.8	113.6	2.5	106.6	97.4
1994	129.6	114.5	2.9	102.2	105.3
1995		118.2	3.1	106.5	110.2
1st qtr.1995	−2.3	6.1	2.9	106.9	105.7
2nd qtr.1995	−0.8	4.9	3.1	104.9	106.6
3rd qtr.1995	0.6	0.9	3.2	105.1	108.2
4th qtr.1995		1.2	3.3	109.9	110.2
February 1995	−1.6	7.4	2.9	112.8	105.6
March	−1.1	5.9	3.0	105.1	105.7
April	−1.5	6.0	3.1	104.0	105.8
May	−0.7	5.6	3.1	106.3	106.3
June	−0.3	3.2	3.2	104.5	106.6
July	−0.9	1.3	3.2	104.2	106.8
August	0.7	1.0	3.2	105.8	107.6
September	1.8	0.5	3.2	105.4	108.2
October	−1.1	1.4	3.2	109.0	108.6
November	1.3	0.7	3.4	108.6	109.7
December		1.5	3.4	111.2	110.2
January 1996		2.8		110.1	

■ GERMANY

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	7.1	100.0	89.7
1986	103.4	102.2	6.4	136.9	89.3
1987	107.4	102.6	6.2	149.5	90.0
1988	110.5	106.3	6.2	165.1	96.5
1989	114.2	111.4	5.6	219.5	97.8
1990	123.5	117.2	4.8	261.9	98.1
1991	130.5	118.1	4.2	297.9	95.2
1992	127.7	116.4	4.6	287.9	89.2
1993	122.3	109.1	6.1	229.0	95.2
1994	120.4	113.9	6.8	240.4	103.7
1995		114.1		267.8	
1st qtr.1995		3.0	6.7	271.6	102.1
2nd qtr.1995		1.7	6.8	276.3	101.9
3rd qtr.1995		−0.1		265.5	101.0
4th qtr.1995		−3.8		258.0	
February 1995		5.5	6.7	270.5	102.5
March		1.2	6.7	280.5	102.1
April		1.6	6.8	279.7	101.9
May		2.9	6.8	277.2	103.1
June		0.7	6.8	272.2	101.9
July		1.0	6.8	270.5	101.3
August		−0.2		264.6	101.3
September		−1.2		261.3	101.0
October		−3.3		258.8	101.0
November		−2.8		260.5	101.4
December		−5.2		254.8	
January 1996		1.6		264.8	

■ FRANCE

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	10.3	100.0	90.0
1986	102.4	101.2	10.4	107.0	96.3
1987	104.5	103.1	10.5	117.2	96.2
1988	107.9	107.3	10.0	135.3	101.2
1989	109.5	111.3	9.4	160.6	101.0
1990	110.4	112.9	8.9	163.2	96.5
1991	110.3	113.3	9.4	128.2	97.8
1992	110.6	113.2	10.4	109.5	96.5
1993	110.7	110.2	11.7	90.0	100.0
1994	110.8	114.4	12.3	104.1	103.3
1995	110.7	117.0	11.6		97.9
1st qtr.1995	0.5	5.5	11.8	119.3	102.2
2nd qtr.1995	1.1	3.4	11.6		101.9
3rd qtr.1995	0.4	1.7	11.4		99.3
4th qtr.1995	−2.2	−1.3	11.6		97.9
February 1995	0.6	4.3	11.8	119.1	102.5
March	−1.5	6.2	11.7	128.1	102.2
April	0.2	2.1	11.6		102.6
May	2.6	3.9	11.6		102.3
June	0.5	4.2	11.5		101.9
July	1.8	2.3	11.4		101.5
August	0.0	2.3	11.4		100.8
September	−0.6	0.5	11.5		99.3
October	−4.4	−0.8	11.5		98.8
November	0.5	−0.8	11.8		98.5
December	−2.9	−2.2	11.7		97.9
January 1996					

■ ITALY

	Retail sales volume	Industrial production	Unemployment rate	Composite leading indicator
1985	100.0	100.0	9.6	88.3
1986	106.8	104.1	10.4	94.3
1987	112.1	106.8	10.9	95.9
1988	107.9	114.2	10.9	100.2
1989	116.9	118.7	10.9	98.3
1990	114.5	118.0	10.3	95.0
1991	110.9	116.9	9.8	97.2
1992	116.9	115.4	9.8	94.2
1993	114.1	113.0	10.2	101.0
1994	107.4	119.5	11.1	102.9
1995		127.2		101.4
1st qtr.1995	−3.6	8.9	12.2	101.7
2nd qtr.1995	−4.5	5.9	12.2	101.8
3rd qtr.1995	−5.9	6.5	12.1	102.3
4th qtr.1995		4.8		101.4
February 1995	−1.4	8.2	n.a.	102.3
March	−10.1	9.0	n.a.	101.7
April	−2.1	5.0	n.a.	101.3
May	−6.3	7.2	n.a.	101.4
June	−5.0	5.5	n.a.	101.8
July	−3.5	4.2	n.a.	102.8
August	3.9	10.1	n.a.	102.9
September	−18.1	5.0	n.a.	102.2
October	−9.8	4.5	n.a.	101.0
November		4.2	n.a.	100.1
December		5.8	n.a.	101.4
January 1996			n.a.	

■ UNITED KINGDOM

	Retail sales volume	Industrial production	Unemployment rate	Vacancy rate indicator	Composite leading indicator
1985	100.0	100.0	11.2	100.0	90.0
1986	105.3	102.5	11.2	118.1	93.0
1987	110.8	106.5	10.3	141.0	97.1
1988	117.8	111.6	8.6	144.0	95.7
1989	120.1	114.0	7.2	124.3	98.5
1990	121.1	113.7	6.8	97.8	91.8
1991	119.4	109.5	8.8	68.6	95.0
1992	120.4	109.4	10.1	69.6	98.6
1993	123.8	111.5	10.4	78.5	106.9
1994	128.5	117.2	9.5	93.9	108.4
1995	129.9	119.9	8.7	107.9	107.8
1st qtr.1995	1.5	4.3	8.7	103.5	108.4
2nd qtr.1995	1.4	2.0	8.8	106.4	108.1
3rd qtr.1995	0.5	1.5	8.7	109.2	107.9
4th qtr.1995	1.2	1.6	8.6	112.5	107.9
February 1995	2.4	4.0	8.7	103.0	108.4
March	1.5	5.3	8.8	103.4	108.4
April	1.8	2.6	8.8	107.2	108.5
May	1.2	1.7	8.8	106.0	108.3
June	1.2	1.7	8.8	108.0	108.1
July	1.2	2.2	8.8	106.2	107.9
August	0.4	1.0	8.7	107.7	107.9
September	−0.1	1.3	8.7	113.9	107.9
October	0.2	0.9	8.6	112.7	107.8
November	1.6	2.1	8.6	113.5	107.9
December	1.7	1.8	8.6	111.3	107.9
January 1996	2.3	1.4		110.6	

All series seasonally adjusted. Statistics for Germany apply only to western Germany. Data supplied by Datastream and WEFA. Retail sales volume: data from national government sources except Japan and Italy (value series deflated by OECD using CPI). Refers to total retail sales except France and Italy (major outlets only) and Japan (department stores only). Industrial production: data from national government sources. Includes mining, manufacturing, gas, electricity and water supply industries except Japan (mining and manufacturing only) and UK (also includes construction industries). Unemployment rate: OECD standardised rate which adjusts as far as possible for the different definitions of unemployment used in official sources. Vacancy rate indicator: relevant vacancy measure divided by total civilian employment, expressed in index form. Derived from OECD series. US – help-wanted advertising, Japan – new vacancies, Germany and France – all jobs vacant, Italy – no data available, UK – unfilled vacancies. Composite leading indicator: OECD data. Each is a combination of series, cyclical fluctuations in which usually precede cyclical fluctuations in general economic activity.

Christopher hails N-test ban progress

By Frances Williams in Geneva

Mr Warren Christopher, US secretary of state, yesterday said the five declared nuclear powers were moving closer in negotiations on a global nuclear test ban treaty, and urged a concerted push to wrap up the talks this summer. "This is an historic opportunity which certainly must not be lost," he said.

Mr Christopher, in Geneva to emphasise Washington's strong support for the treaty, said after meeting some of the main negotiators that the talks appeared to have made "real progress". But he acknowledged that important differences of view remained on some issues, including the treaty's scope, verification and conditions for entry into force.

He had earlier indicated that he would be pressing China and India in particular not to block the pact, which is being negotiated in the 38-member United Nations Disarmament Conference.

The treaty is due to be completed by the end of June for endorsement by the UN General Assembly in September.

Mr Christopher met Chinese and Indian representatives separately after meetings with other nuclear weapons states – Russia, Britain and France – and members of the non-aligned movement including Pakistan, Egypt, Indonesia and Mexico.

India, despite dwindling support from other developing nations, wants a firm link [between] the treaty to talks on total nuclear disarmament within [a] fixed time-frame. But Mr Christopher warned yesterday that this would be counterproductive, ensuring neither goal is achieved.

China, the only country still testing nuclear weapons, is insisting that the treaty make an exception for "peaceful nuclear explosions". However, it is isolated in this demand and a senior US State Department official, citing other signs of Chinese flexibility, said yesterday that Washington hoped "the Chinese soon can join us" in a total ban.

The US, Britain and France are backing Australian treaty wording that would ban "any nuclear weapon test explosion or any other nuclear explosion".

Russia says it will agree to a "zero-yield" treaty banning all nuclear explosions, however small, but for the time being is clinging to a different, and the US claims more ambiguous, formulation.

Meanwhile, Moscow yesterday denied suggestions by US officials travelling with Mr Christopher that it might have carried out a nuclear test, in violation of its self-imposed moratorium. Mr Christopher told reporters later that he believed Russia was complying with the moratorium.

Other unresolved treaty issues include how many countries should ratify the treaty before it goes into force. Washington says just the five declared nuclear powers should be required, but other nations want all "nuclear-capable" countries to be members including the three acknowledged "threshold" states – Israel, India and Pakistan.

Singapore, US seen as the most competitive countries

By Frances Williams in Geneva

Business leaders around the world rate the United States and Singapore as the world's most competitive nations, followed by Japan, Germany, South Korea and Switzerland, according to a survey by the International Institute for Management Development (IMD).

However, with the notable exception of Singapore whose executives think it ranks first in the world, business leaders in these countries took a far more gloomy view of their own nation's performance.

Japanese executives put Japan 27th in the competitiveness rankings. Germany fell from 4th to 17th position and Switzerland from 6th to 23rd.

The survey of nearly 2,500 international business leaders forms part of an annual comparison of country competitiveness compiled annually by the Swiss-based IMD and, in previous years, the World Economic Forum. This year's report, to be published in September, will be the IMD's first solo effort.

Business executives were also asked to rate countries on economic adaptability, attractiveness for investment and commercial aggression.

The rankings for adaptability tended to follow those for competitiveness but there were big differences in the other two.

In particular, the British government's efforts to lure foreign investors appear to have borne fruit. The United Kingdom was ranked third internationally for attractiveness to business, after the US and Singapore but ahead of Malaysia, Germany and Switzerland.

On aggression, seven of the top 10 countries were located in Asia, with Japan and South Korea taking first and second places. The US came third, followed by Singapore. Germany was sixth and France a more surprising 10th, marking its "comeback on the international scene", according to IMD.

UN, Iraq nearer oil deal

By Michael Littlejohns at the UN in New York

United Nations and Iraqi negotiators last night neared an end to their second round of talks on a limited resumption of Baghdad's oil exports, to pay for food and medicines for civilians suffering under the impact of sanctions.

Diplomats said about 90 per cent of the differences between the two sides now had been resolved, encouraging hopes that the next round might be conclusive.

Mr Tariq Aziz, Iraqi deputy prime minister, agreed in a telephone conversation with Mr Boutros Boutros Ghali, UN secretary-general, that the talks should resume on April 8, again in New York.

If Mr Aziz then were to decide to join the negotiations, this would probably be taken as a sign President Saddam Hussein had the political will to accept the terms of sale set by the Security Council almost a year ago.

"I for one am keeping my fingers crossed," said Ms Sylvana Foa, the UN spokesman, who has all along been optimistic about successful talks, begun last month.

However, diplomats said a troublesome issue remained how to distribute food and humanitarian supplies in the northern Kurdish region. The UN insists its agencies take responsibility for this, but Iraq wants to retain control.

Up to $2bn-worth of oil is at stake in the sale, which would take place over a six-month period. But it is taken for granted that once the flow of Iraqi oil is resumed, the Security Council would authorise future limited sales even if the broader sanctions regime remained in place.

Prospects for lifting the five-year-old embargo were not improved by five recent incidents in which Iraq barred access for UN inspectors seeking evidence of the country's remaining arsenals of weapons of mass destruction and capability to develop new heavy weapons. All incidents were resolved after stand-offs lasting several hours; Mr Nizar Hamdoon, the Iraqi delegate, insisted yesterday there was no real problem.

Nonetheless, Mr Rolf Ekeus, chief of the UN inspection commission, asked the Security Council to re-emphasise the monitoring mandate, making clear the Iraqis could not set their own conditions for inspections.

Mr Ekeus said the inspection commission had not yet concluded Iraq was "free from prohibited missiles".

He was concerned about remaining biological and chemical agents for use in missile warheads.

Uganda faces tireless enemy

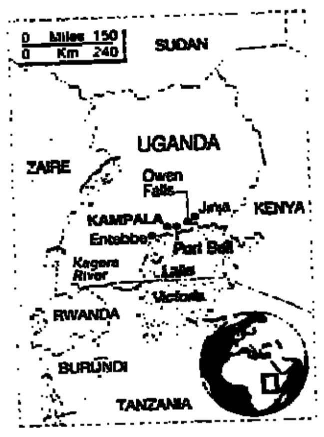
Michela Wrong on a water weed threatening ecological disaster

The acres of lush vegetation, dotted with pink blossoms, offer a scene of pastoral tranquillity.

Unfortunately, this is not a field. This is part of a lake – Lake Victoria – and the carpet of greenery, so thick that small boys can walk across it, was once blue water running clear into the turbines of Owen Falls Dam, Uganda's main supplier of electricity.

That was before *Eichornia crassipes*, or water hyacinth, infected the legendary source of the Nile, Africa's biggest freshwater reserve. Washed down the Kagera River from Rwanda, the weed spread so rapidly that more than 70,000 tonnes now fills the bay above Owen Falls, testing the strength of a bridge and boom never designed to meet such a challenge.

Ugandan labourers clearing water hyacinth, which grows back almost as soon as it is removed Michela Wrong



Months of back-breaking effort by a team of labourers, who uproot the plants by hand and burn them ashore, have cleared only a tiny patch of water. The water hyacinth grows back almost as fast as it is removed. Dam engineers regularly halt operations to clear equipment of rotting vegetation. Government experts, afraid the turbines will clog, warn of a potential catastrophe at the 180MW installation, which exports power to Kenya and Tanzania.

First spotted here in 1988, the water hyacinth has become one of the Ugandan government's most intractable problems, an example of how a multitude of minor environmental factors combine to cause a national nightmare.

Attempts to find a solution have exposed the difficulties – when Uganda, Tanzania and Kenya are talking bravely of regional co-operation – of transcending local politics to combat a common enemy.

In its Amazonian habitat, the water hyacinth is a harmless, pretty plant. Brought to Africa last century, probably as a pool ornament, it blossomed in the absence of natural predators, invading the continent's waterways. In clean waters it remains unobtrusive. But it explodes, tripling in size, in nutrient-rich water.

There proved to be no shortage of these on the Ugandan side of Lake Victoria. Downwind and downstream, these bays receive the bulk of the lake's pollutants: fertiliser and factory run-off, untreated human waste from Kampala, where the sewage works cannot keep pace with a burgeoning population.

The water hyacinth now fringes 90 per cent of Lake Victoria, clogging Uganda's landing sites, blocking pumping stations and forming huge mats that "fix" the water and hog the light, choking off other organisms. The shallow waters where Nile perch and tilapia breed and spawn are turning into stagnant pools, endangering a fishing industry that exports 200,000 tonnes a year.

Environmentalists, anxious about the 300 species of fish unique to these waters, worry about the death of an ecosystem. Local fishermen have more prosaic complaints: they spend days marooned on the lake, unable to reach the shore across kilometres of vegetation. Cargo boats are finding it difficult to dock at Port Bell.

There is talk of moving operations to the town of Jinja, where the main harbour used to be. But that would mean trucking goods 80km to Kampala, instead of the short rail trip from Entebbe.

Waking up somewhat belatedly to the extent of the problem, the government has set up a special task force and is approaching donors for contributions to a $5.4m emergency plan.

Advised by Aquatics Unlimited, a US company that has combated water hyacinth across the world, it plans a three-pronged approach. Herbicides will shrivel the hyacinth, huge harvesters will clear strategic sites, and the release of weevils being bred in laboratories – the hyacinth's natural predators – should keep the plant in check over the long term. But this is where the politics come in. All such measures must first be approved by Kenya and Tanzania, which also border the lake but have been less badly hit.

While Uganda has enjoyed harmonious relations with Tanzania since the 1980s, the same cannot be said of Kenya. President Daniel arap Moi, Kenya's head of state, and President Yoweri Museveni, Uganda's leader, have been fierce rivals for years.

Although both men publicly shelved their animosities to lay the framework for regional economic co-operation at a summit in January, many locals question their sincerity. The water hyacinth problem may provide a test.

So far, because it is on the receiving end of the problem, Uganda is aware of the need for quick action, while Kenya and Tanzania have felt freer to fuss about the possible environmental threats posed by the herbicides or weevils.

"If Lake Victoria was our lake we would have gone ahead much faster. But we had to consult our neighbours," acknowledges Prof Joseph Mukibi, head of the Ugandan task force.

Cynics have noted that since the Kenyan shoreline afflicted by the weed is populated by the Luo, a community that supports the opposition, Mr Moi may feel little pressure to come to their aid.

Although the herbicides and weevils have been used elsewhere with success, Uganda is trying both out on small pools to prove conclusively to its neighbours an ecological disaster is not looming. With each passing day that the weed spreads, the eventual cost of clearance escalates. Harvesters were originally expected to start work last November but the task force is now talking about another three or four months of tests.

ANALYSIS: JAPAN'S FINANCIAL CRISIS

Like wayward samurai, seven Japanese *jusen* have fallen in financial battle. They lie buried under a pile of bad loans and broken promises

Collapse that may force Japan to put its house in order

At the end of a long career navigating the backwaters of Japan's financial markets, Mr Keiichiro Niwayama is enjoying a moment of rare notoriety.

Mr Niwayama, a frail but still combative 78, announced his resignation last week as a senior adviser to Nippon Housing Loan, the institution that formed the prototype for the *jusen* companies now at the centre of the most acrid political dispute in recent Japanese history.

In his 20 years as president of NHL, Mr Niwayama earned the soubriquet *"Mr Jusen"* in recognition of his pivotal role in the spectacular growth of the housing lenders. Today he is more likely to be ranked high in the lists of those dubbed "Class A war criminals" by the popular Japanese press for his part in their equally spectacular collapse.

It is not difficult to see why. The statistics of the company's failure are eye-catching even by recent Japanese standards. Three-quarters of its loan book is now bad. In the past four years it has lost the equivalent of more than eight times shareholders' equity.

Its share price has declined from Y2,310 six years ago to Y40 (37 US cents) last week. And, as a final indignity to the long-suffering public, its liquidation is now to be smoothed by the donation of public funds.

But from his cramped office in the heart of Tokyo's government district, Mr Niwayama still looks out with disdain on those who seek to blame him or his colleagues for the debacle.

"Everyone is looking for someone to take responsibility for this crisis, but it is certainly not all our fault. The blame lies with the banks that created the companies and the government which created the financial conditions that led to our failure."

While there is more than a hint of self-serving defensiveness about Mr Niwayama, he is at least right to suggest that the responsibility for the *jusen* mess is spread far more widely than his enemies argue.

An examination of the history of Nippon Housing Loan reveals the extraordinary web of relationships between banks, bureaucrats, politicians and big business that brought about its failure.

Culpability for the *jusen* collapse lies, in fact, with almost everyone involved in the functioning, supervision and management of the Japanese financial system.

This year, Nippon Housing Loan's 25th anniversary, should have been an occasion for celebrations. 1971 was a watershed year in Japan's march back towards economic pre-eminence and national self-esteem. That summer festivities greeted the signing of the agreement with the US to hand back the island of Okinawa to Japan after a quarter century of American occupation. The economy had just achieved its fifth consecutive year of double-digit percentage growth.

住専

Japan's governing and opposition parties failed once again yesterday to break the parliamentary deadlock that has plunged the country into a deepening political and financial crisis. For more than two weeks, opposition members have physically blocked a debate on the nation's budget for the fiscal year beginning next month.

They are refusing to consider the budget bill until the government of Prime Minister Ryutaro Hashimoto agrees to remove a plan to spend Y685bn ($6.47bn) on a bailout of the country's failed housing loan companies, the *jusen*.

The government's attempts to win parliamentary approval for the plan have provoked rare demonstrations of public outrage. Seven of the *jusen* are virtually bankrupt, buried under a pile of non-performing loans acquired in reckless property-related lending during the so-called bubble economy of the late 1980s, the period of rapid increases in land and other asset prices.

Opinion polls suggest that up to 90 per cent of voters are hostile to what they see as a waste of taxpayers' money on incompetent and venal bankers. For its part, the government says the plan is essential to restore confidence in Japan's battered financial system. It claims that defeat for the budget would provoke a genuine financial crisis.

At the weekend, the government enlisted the support of Mr Robert Rubin, the US treasury secretary, who urged the Japanese parliament to approve the scheme for the sake of international financial stability.

The longer the stalemate continues the more difficult the government's task becomes. It has threatened forcibly to eject the protesting opposition deputies, but it knows that such a move would provoke even stronger public hostility.

At the centre of the political tussle is the question of responsibility for the *jusen* fiasco – how these relatively small financial institutions were allowed to get to the point where they threaten to bring chaos to Japan's financial system.

The story of their demise encapsulates the frenzied rise and fall of the bubble economy. It is a story of the apotheosis of so-called money politics – the web of financial relationships among bankers, politicians, and even organised crime that dominated business and political life in the 1980s.

住専 'We were told we had to expand our lending no matter what'

And the country was experiencing the first of many yen-dollar crises, when in August, the "Nixon shock" sent the yen soaring to Y314 against the US currency.

In September, in little more than a footnote to such drama, half a dozen of the country's largest banks launched a vehicle into which they poured much of their capital and a good deal of their future plans for expansion.

Japanese workers' living standards were rising sharply. The demand for better housing that went with the growing affluence caused a problem for the nation's big lenders.

Their loan books were already brimming with finance for the country's manufacturers, but they were anxious to cash in on the growing market.

The banks – led by Sanwa and Mitsui – hit upon a scheme for meeting the new demand. Pooling capital, they opened a specialised housing finance company – *"jutaku*

an attractive candidate to lead the company. Unusually, he had held senior posts at both the finance ministry and the Bank of Japan.

That sort of record was likely to prove very useful in greasing the wheels of the Japanese bureaucratic machine whenever it threatened to get in the way of business.

To start with, sound banking practices and steady growth in demand meant those special skills were not immediately required.

"Demand for housing loans was growing strongly. But we were still very cautious," says Mr Niwayama. Indeed the company was something of a model of banking prudence.

Its usual policy was to lend a maximum of 80 per cent of a property's value. Borrowers were carefully vetted and the strictest credit training was given to the staff.

The NHL formula proved successful enough to spawn a host of imitators, and by 1978 there were eight *jusen*. The value of their mortgage lending rose fivefold between 1975 and 1980, but within a few years the companies had become victims of their own success.

By the early 1980s the *jusen* were doing so well that their founder banks decided they wanted a part of the business.

The surging stock market was expanding their capital base, enabling them to increase lending and they moved quickly into the housing lenders' bread and butter market of home mortgage advances. In the process they began to force down interest rates and squeezed the *jusen* hard. Mr Niwayama recalls acrimonious disputes with the banks over the change.

"It was very damaging," he says. "Having set up the company, they then almost immediately took away our main line of business."

To survive, NHL's management was forced to look elsewhere. At the time, land prices were just starting their rapid upward progress that would lead to the bubble economy. The inflation was starting to attract the interest of property speculators.

For the *jusen*, the interest offered a perfect opportunity. Within the space of a few years, they all but abandoned their core business of individual mortgage lending and ventured out into the much riskier world of property speculation.

"We were told we had to expand our lending, no matter what. We would regularly lend over 100 per cent of collateral values. Land prices were rising by 30 per cent a to raise money. They were not deposit takers, but relied instead on borrowing from the banks, which was not enough to support the kind of expansion that was about to burst over the property market.

Characteristically the solution to such a difficult balance sheet problem was found out in the fields. It is difficult to overstate the importance of a piece of land in the Japanese psyche.

The scarcity of habitable land has long given a plot of real estate an almost mystical significance. But in the 1980s, as prices rose, the palpable sense of growing well-being among landowners led to supreme over-confidence.

The nation's farmers were beginning to discover that the sale of just a tiny parcel of their property would make them rich beyond their dreams. With customary Japanese thriftiness, the proceeds of that sale would be deposited in the local farm co-operative – institutions that across Japan held over Y2,000bn in total deposits.

The problem for the managers of those institutions was how to secure a generous return on their funds in an increasingly competitive investment environment.

This was where the *jusen* stepped in. They were confident enough of the profitability of their new property-speculator customers to offer the farmers very attractive rates of return.

And the *jusen's* umbilical cord remained firmly attached to their founder banks in spite of the difficulties with them. The banks continued to send them senior managers, offered advice and, to outsiders, seemed much like parent companies.

"We had no fears about handing over our deposits to the *jusen*, because it was clear from the way the *jusen* were run that the banks were really responsible for them," says a manager at Norinchukin, the central financial institution for farmers' co-operatives.

By the early 1990s, more than a third of total borrowings of Y2,200bn by NHL came from the agricultural sector – a typical figure among the *jusen* as a whole.

This pervasive spirit of the times certainly appears to have prevented the *jusen* from making a thorough appraisal of some of the companies to which they were lending.

In Osaka and Tokyo especially, organised crime syndicates were big customers. Many property and con-

dozen of the *jusen's* largest borrowers have *yakuza* connections.

The scale of the mania for large scale property development was unprecedented. In 1980, 90 per cent of NHL's total loan book was made up of advances to individuals. By 1990 that figure had fallen to less than a third. All the *jusen* were riding a wave of speculation, but no one at the time seemed prepared to consider that it would ultimately be answerable to the laws of gravity.

"We really thought Japan was fundamentally different," said a young manager. "It was a market that seemed bound to go on rising for ever."

The one group of individuals usually paid to point out the folly of such hubris are financial regulators. But at that time in Japan, their powers of appraisal also seemed to have deserted them.

The ministry of finance, the main regulator, failed to stop the *jusen* lending in such vast amounts, even after property prices began to fall in the early 1990s. Officials only attempted to clamp down on the lending long after it was too late.

One possible reason for their diffidence was that many bureaucrats saw the *jusen* as a useful source of retirement income. In the 1970s and 1980s at least 13 senior officials of the finance ministry took up positions at one of the *jusen* after their retirement, through the familiar

住専 Farmers, gangsters, politicians and the *jusen* themselves are all under fire

process of "*amakudari*" – "descending from heaven".

It is a process that inevitably weakens the hands of the regulators. As one former bureaucrat puts it: "It is not very easy for a young finance ministry official to go and tell someone who used to be his boss how to run his business."

Another group who might have acted sooner but were too busy enjoying the ride themselves were politicians. But in the era of money

jusen-related companies. The most serious allegation concerns one of the party's most senior politicians, Mr Koichi Kato, the secretary general.

In a smart Tokyo hotel suite one night in January 1990, just as the *jusen* problems were beginning to emerge, the president of one of the largest borrowers, Kyowa Corporation, had a friendly meeting with Mr Kato.

What happened during the meeting is now hotly disputed, but an assistant to Mr Kato now says the Kyowa boss, Mr Goro Moriguchi, handed the politician a brown paper envelope containing Y10m in notes.

The money was intended for Mr Kato's campaign funds and should have been quickly declared for tax purposes. But Mr Kato, who later became the secretary general of the LDP and is now cabinet secretary, unaccountably failed to do so.

Mr Kato denies there was any wrongdoing, but says he cannot properly explain why he did not report the money.

A couple of years later Mr Moriguchi went to prison for bribing a leading government official over a construction contract. Mr Kato himself is now under investigation, though he continues to deny any impropriety.

What is clear is that, in keeping with the times, companies were busy buying influence. In the *jusen* case, they were especially keen on diverting attention away from their increasingly murky financial condition.

Unmolested by regulators and politicians, caught up in the frenzy of property speculation of the late 1980s, under continuing pressure to compete in increasingly tight markets, and knee-deep in loans to some dubious customers, NHL and its *confrères* were well on the way to financial ruin.

In the end higher interest rates and the stock market collapse of the early 1990s led to a fall in land prices which predictably, knocked down the whole house of cards.

The *jusen* quickly descended into financial chaos, with more than three quarters of their Y13bn ($122.8m) in total loans now non-performing.

The story of the brief rise and spectacular fall of NHL and its brother companies is a picturesque tale of incompetence, venality, greed and corruption. It is no surprise that the search is on for the culprits

prime targets.

The authorities, for their slo[illegible] supervision throughout the *juse*[illegible] history, are another. But farme[illegible] gangsters, politicians and, [illegible] course, the *jusen* themselves, are [illegible] under fire.

Yet the very breadth of that fiel[illegible] suggests that something even more serious than individual culpability is at the heart of the *jusen* debacle. It is a failure, not just of bankers and officials, but of the system itself.

住専 The authorities have at last acknowledged that real change is necessary

Enormous though the *jusen* problems are, they still represent only a fraction of the total level of bad loans at all Japan's financial institutions – perhaps one-fifth.

Daily revelations about the scale of problems elsewhere – the non-bank lenders are the latest example – give a hint of the overall scale of the financial calamity.

What then is really behind these failures?

It is a curious irony that the focus of the *jusen* debate has been on the question of the responsibility of the parties involved.

The striking feature of the crisis has been, in fact, not that any one person or group could be deemed responsible, but, on the contrary, a complete absence of responsibility by all concerned.

The multiplicity of characters involved as potential culprits indicates that no-one felt responsible for their own actions. Farm co-ops believed their lending would be protected by banks; the *jusen's* borrowers believed the *jusen* would be responsible for any losses.

And everyone expected the ultimate responsibility to lie with the government. Whatever happened, the authorities would not be expected to abandon their charges.

This last point is the key to the central problem in the Japanese financial syst[illegible]

the authorities that no bank would be allowed to fail.

That guarantee in turn has its roots in the purpose for which the financial system was constructed in its current form.

Banks were protected by the ministry of finance because they occupied such a central role in the economy. Capital for industrial investment was scarce and banks therefore operated largely as conduits of funds for industry.

They channelled low-cost loans to [illegible]mpanies and in the process did [illegible]t have to concern themselves [illegible]pecially with profitability or qual[illegible] of performance.

[illegible]he emphasis was on expansion [illegible]ll costs. In return for this sup[illegible]tive role in Japan's industrial [illegible]eration, banks were under[illegible]en by the finance ministry – th[illegible] could not be permitted to fail.

[illegible]h a system would have en[illegible]aged reckless lending at the be[illegible] times but, in the 1970s and 198[illegible] just as the *jusen* were begin[illegible] grow, the economic condi[illegible]hat underpinned the system cha[illegible]

W[illegible] gradual deregulation and the [illegible]ning up of the country's mar[illegible], companies became less depe[illegible]t on banks for their funding. [illegible]ks were forced to compete more [illegible] business – hence their own [illegible]e into housing loans and, fateful[illegible] the property market.

Yet [illegible]pite of the changing needs of the [illegible]nomy, the financial system re[illegible]ed its essential characteristics [illegible]tected and closely guided by the [illegible]nce ministry.

In o[illegible]r words, banks were encoura[illegible] to look elsewhere for other, [illegible]ier benefits, backed by the co[illegible]uing guarantee of the authori[illegible] – the worst of both worlds.

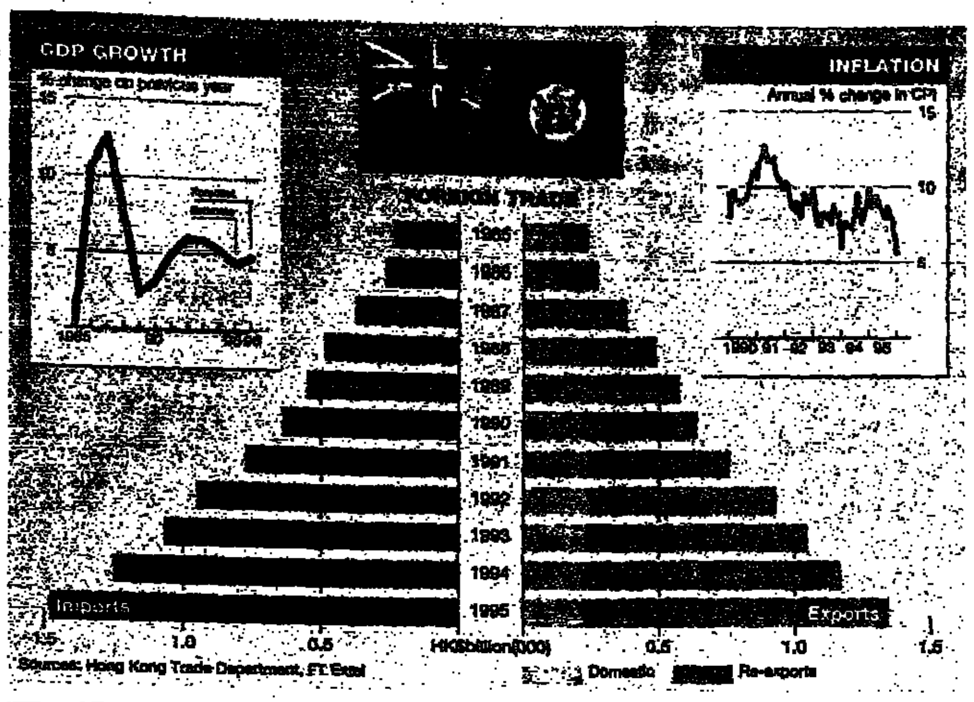
The s[illegible]h for culprits in the *jusen* sa[illegible]d in the broader financial *imbro*[illegible] will go on. The government [illegible] pledged to seek out and puni[illegible]hose held responsible.

The a[illegible]rities have at last acknowle[illegible] that real change to the syste[illegible]self is also necessary. But they [illegible]e made only tentative moves in [illegible] direction, heightening suspi[illegible] that they wish to cling to th[illegible] structures.

To prep[illegible] to abandon those structures [illegible]ld be to acknowledge the need f[illegible]dical reform of the Japanese e[illegible]my, something politicians and [illegible]aucrats are not anxious to do [illegible]

هكذا من الأجل

HONG KONG



The battle for business as usual

Risks lie ahead and rivals are threatening its lead, but Hong Kong has the potential to develop its role as a trading and financial centre for China and the region, says John Ridding

These are testing times for Hong Kong. It will need its resilience and resources to hurdle next year's handover to Chinese sovereignty and secure for the long term its position as one of Asia's leading business centres.

Apart from the complexities surrounding the transfer from a capitalist to a communist landlord, potential hazards lurk in Beijing's bellicose stance towards Taiwan and its trade relations with Washington. Finance and industry are having to adapt strategies to manage the transition, while Singapore and other rivals are stepping up the competition for regional business.

Despite these challenges, the business community and most in the political establishment believe Hong Kong has the strengths to consolidate its position. They cite the potential provided by its legacy and location – a financial centre on the edge of China's capital hungry economy and a trading hub at the heart of the world's fastest growing region.

"Hong Kong has enormous further potential in services and trade," says Mr Renato Ruggiero, director-general of the World Trade Organisation. Mr Rafael Hui, Hong Kong's secretary for financial services, describes the colony as the natural conduit for China's capital needs, estimated at more than US$770bn over the next 10 years for infrastructure alone, and for the flow of funds into the mainland from the overseas Chinese diaspora.

For Hong Kong to play its trump cards, it must first achieve a confidence trick, maintaining faith in its markets and prospects. And for the moment, there are clear signs that confidence remains intact.

Hong Kong's biggest tycoons and trading empires – from Mr Li Ka-shing's Cheung Kong to Mr Lee Shau-kee's Henderson Land, Swires and Jardines – are battling to be part of property and infrastructure projects. Last month's award of a HK$7.7bn development contract to a Singapore-backed consortium demonstrated not just the connections of the overseas Chinese community but also provided a vote of support for Hong Kong's post-1997 prospects.

Port operators at Kwai Chung, the world's busiest container facility, predict robust growth on the back of rising trans-Pacific and regional trade. There, as at the new airport, bold infrastructure schemes are buttressing Hong Kong's role as a services hub.

Confidence, however, is a fickle commodity. As befits a horse-racing town, bets are hedged. Many of the business leaders who are piling money into investments have registered their companies overseas. An estimated 500,000 of Hong Kong's 6m inhabitants have taken out foreign passports, in case events turn sour.

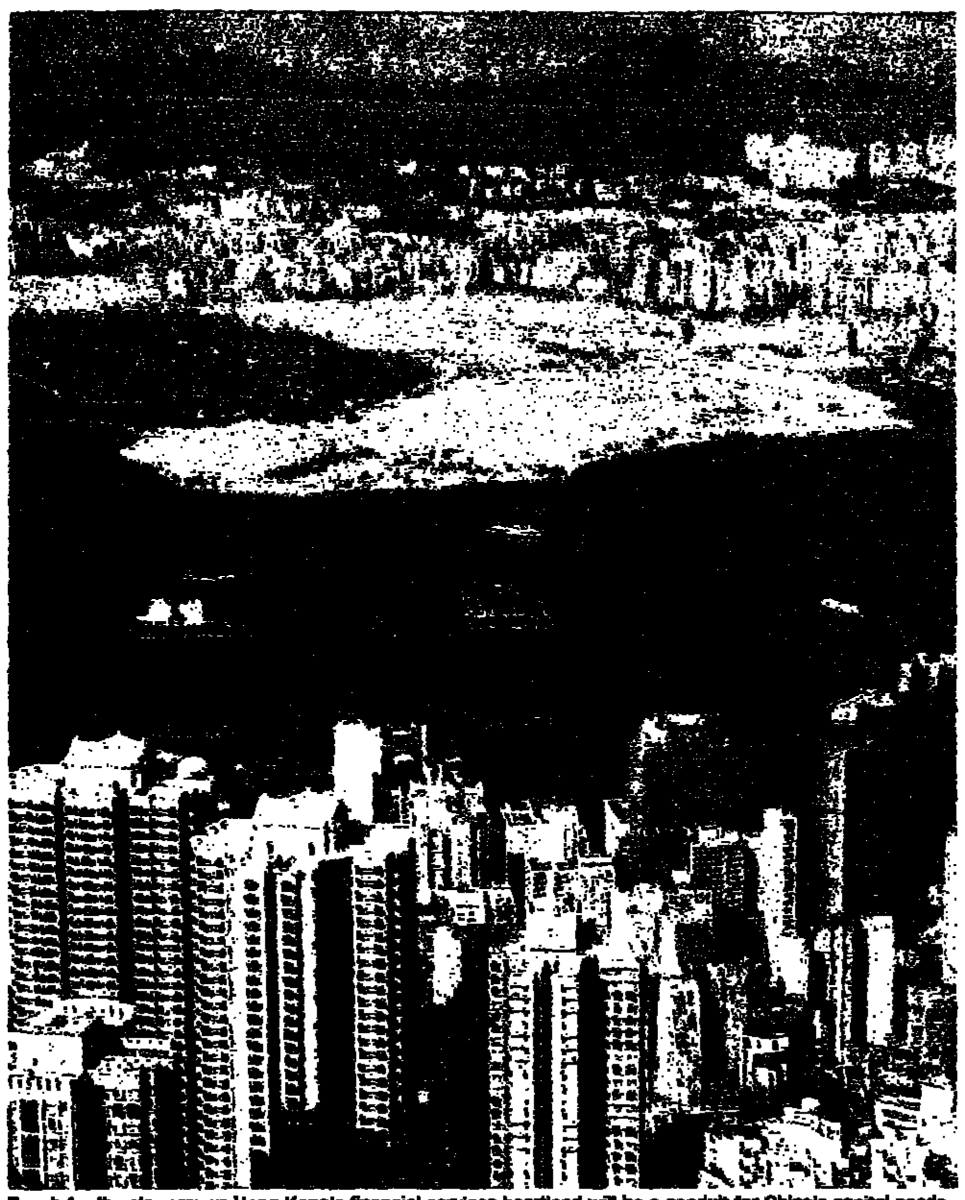
The risks are highlighted by the structure of Hong Kong's economy. Its evolution from a manufacturing tiger to a maturing service centre continues to provide a lucrative division of labour with southern China. "The shop at the front and the factory behind are working well," says Mr Wang Wengui, a development official in Shenzhen, one of the special economic zones across the border.

But the shift of the colony's manufacturing to southern China means that services now account for more than 70 per cent of Hong Kong's GDP. As a result, the territory is increasingly dependent on people-based businesses and consumer sentiment. Last year's retail slump, which limited growth to a lacklustre 4.6 per cent, showed the importance of mood. Damaged confidence or significant emigration could deliver a much more serious blow.

Mr Donald Tsang, the financial secretary, has no qualms about the rise of services, arguing that it reflects a natural development of Hong Kong's comparative advantage. "The time has come to give the service sector the place it deserves in economic policy," he said in his maiden budget speech this month. The finance chief also predicted improved economic performance this year, with momentum gathering from the second half.

Revocation of China's most favoured trading nation status with the US, would undermine this forecast, damaging Hong Kong's trade. So, too, would political jitters in the colony.

Beijing has signalled some awareness of this, adopting a more business-like approach to Hong Kong over the past year. Chinese leaders have stressed their commitment to the "one country, two systems" formula that underpins the transfer of sovereignty and pledged to uphold Hong Kong's autonomy. A recent survey by Baptist University suggested some progress, with more respondents citing a positive impression of Beijing.


Reach for the skyscraper: Hong Kong's financial services heartland will be a conduit for China's capital needs

There have also been advances on seemingly intractable problems, from an agreement on funding for the new airport to a political accord on a new container terminal. After their meeting in Bangkok last month, Mr John Major, the British prime minister, and Mr Li Peng, his Chinese counterpart, both spoke of improved bilateral ties.

But pitfalls remain. Beijing's tough stance towards Taipei has raised the possibility of miscalculation or confrontation. Either would hit hard in Hong Kong, which is closely watching the sabre-rattling between China and its island neighbour.

While overall bilateral relations with Britain have improved, areas of tension remain. In addition to specific disagreements, such as Beijing's pledge to dissolve Hong Kong's Legislative Council, elected last year under Governor Chris Patten's democratic reforms, there is broader friction over China's distinction between political and business issues.

"They are still taking a tough line on politics and control," says one British official. "The problem is that Hong Kong is a sophisticated information-based society. Tight control might work when you are making plastic flowers but not when you are providing the headquarters of Merrill Lynch."

Across the local political spectrum, from the Democratic party of Mr Martin Lee, which rode to victory in the Legco elections, to the Pro-Beijing groups, the key issue is Hong Kong's ability to retain autonomy in legal, social and economic issues after 1997. In this respect, there is also agreement that the next few months will be decisive.

The most important decision will be the choice of Hong Kong's first chief executive. A small group of frontrunners

Continued on page 8

IN THIS SURVEY

This survey coincides with the opening of a new Financial Times print site in Hong Kong. From today, readers in Asia should be able to obtain their copies more quickly.

■ **Economy:** by John Ridding

Muffled roar of maturity

After a lacklustre 1995, economic prospects are beginning to look brighter

Hong Kong's roar has been quieter of late. The double-digit growth rates of recent memory have been replaced by more sedate numbers as one of east Asia's first tigers has matured into a service-based economy.

This slowing has been exaggerated over the past year by a fall in the retail and property markets, the price of a speculative expansion in 1992 and 1993. "We have been having a tough time," says Mr Rodney Miles, chairman of the Retail Management Association.

But the gloom now seems to be lifting. In his maiden budget speech earlier this month, Mr Donald Tsang, the financial secretary, forecast an improved economic performance this year. GDP is expected to expand by 5 per cent, up from last year's 4.6 per cent growth, with momentum gathering from the second half.

More importantly, Hong Kong's longer term competitiveness – and its position as a regional hub for trade and financial services – has been strengthened by the fall in costs. Annualised inflation fell from 10.1 per cent in January 1995 to 6.6 per cent by the end of the year.

"It was essential that speculation was cooled," says Mr Tsang. "Growth is better balanced, and the fundamentals are robust." Mrs Joanne Yim, manager of economic research at Hang Seng Bank concurs. "We have been undergoing short-term pain for long-term gain," she says.

Signs of revival are already apparent. The property market is picking itself up from the floor, while consumer spending appears to have bottomed at the turn of the year. "The mood is turning," says one stockbroker. "Soon the bad news will be forgotten, although it has left a nasty taste."

It has also provided some potentially salutary lessons. The downturn highlighted the importance of sentiment in Hong Kong's economy, while the rise in the unemployment rate to 3.5 per cent – a 10-year high – prompted concerns about the economy's ability to absorb unskilled labour. At the same time, Hong Kong's continued expansion demonstrated the importance of its ties with the Pearl River delta, the economic region in southern China to which the colony is firmly bound.

Growth across the Hong Kong border has continued to provide one of the economy's main motors, contributing to a rise in exports of 14.9 per cent in 1995, with re-exports accounting for the bulk of shipments. Imports grew faster, prompting a visible trade deficit of about HK$150bn, but the rise largely reflected the purchase of equipment for the colony's ambitious infrastructure projects.

"The deficit is not a cause for concern because these investments will increase the productive capacity of the economy," says Mr Jim Wong, economic adviser at Hongkong Bank.

As for the steady rise in re-exports, Mr Wong is sanguine. "The division of labour has been working well," he argues. "The industrialisation of southern China and Hong Kong's role as a trade and services gateway provide a lot of potential for growth."

Mr Gordon Siu, government secretary for economic services, believes that other hubs will develop in the region, but that Hong Kong's infrastructure and its location will keep it ahead of Shanghai, Singapore and other potential rivals. Although Mr Sui accepts that the underlying trend of growth has slowed, he sees the potential for surges from specific sectors such as telecoms.

This year, exports should again drive the economy, although expansion may be limited by a slowing in international demand and a stronger US dollar, to which the Hong Kong currency is pegged. Beijing also appears to have ruled out any significant slackening in monetary policy, as it seeks further gains in its battle against inflation.

There are question marks hanging over economic prospects. Continued easing in interest rates has been thrown into doubt by the turmoil in the US bond market. Hong Kong would also suffer if the US were to revoke China's Most Favoured Nation trading status, a move that would slash exports and re-exports and possibly knock a couple of percentage points off GDP growth. In addition, structural shifts in Hong Kong's economy, notably the rise of services, have increased its dependence on the mainland and left it more vulnerable to mood swings.

For Mr Tsang, the rise in services, which now account for more than 70 per cent of Hong Kong's GDP, is no cause for concern. Rather, it is a natural progression that reflects Hong Kong's comparative advantages. "The time has come to give the services sector the place it deserves in our economic policies," he said in announcing his budget. The finance secretary then unveiled a set of proposals, from specific measures to boost the debt market to broader support for the colony's service industries.

The ascent of services, however, increases the importance of the mainland's economic performance. "If your role is to service a hinterland, then obviously you are in the hands of how that region performs," says the chief economist at one investment bank.

Most are bullish about China's prospects. Although the economy has cooled, it is still expected to chalk up annual growth rates of about 10 per cent in the medium term. But there are some areas of concern. Dr Thomas Chan, head of the China Business Centre at Hong Kong Polytechnic University, sees obstacles to continued economic development in Guangdong, the province adjacent to Hong Kong that has propelled China's export growth. "Industry in the region has not increased its value added or sophistication and it faces growing competition from other provinces," he says.

Within Hong Kong, the rise of services has increased the importance of confidence at a time when the territory is preparing for the transfer of sovereignty. "Services are people businesses," says one senior banker. "If the Hong Kong way of doing business is threatened, and if key people leave in substantial numbers then the impact would be profound. There are rival centres, such as Singapore, waiting to pick up any pieces."

Among the main concerns are the need to uphold transparency in business dealings, maintain the free flow of information, and ensure a fair legal system. Some of Beijing's actions, such as the announcement earlier this year that Xinhua would assert tighter controls on financial news dissemination in China, have caused disquiet. So too have wrangles over specific commercial issues, such as the impasse on the award of mobile telephone licences.

"There is obviously a worry about possible interference in the Hong Kong system," says one investment analyst. "This may not come from Beijing, but from sectional Chinese interests. We are not talking about a monolithic country." To illustrate the point, he cites the attempt by CNAC, the subsidiary of the Civil Aviation Authority of China, to establish a Hong Kong-based airline – a move that poses a threat to Cathay Pacific, the colony's de facto flag carrier.

Despite such concerns, most observers in the business and political community play down the risks relating to 1997. "In spite of the difficulties we have had, on the business side China has accepted our way of doing things," says Mr Rafael Hui, the government secretary for financial services.

"There may be some bumps along the way, but the general view is that the transition will be successful," says Mr Edward Young, managing director in Asia Pacific for Moody's, the credit rating agency. Another executive puts it bluntly: "China knows it could kill the golden goose if it blunders in. It also knows it would be crazy to do that."

Six signs of tightening bonds with China

● China is Hong Kong's largest trading partner. In the first eight months of 1995, two-way trade rose by 18 per cent to HK$840bn. Eighty-eight per cent of goods re-exported through Hong Kong were destined for or originated from China.

● In the first eight months of 1995, 17.5m trips were made by Hong Kong residents to China, a 7 per cent increase.

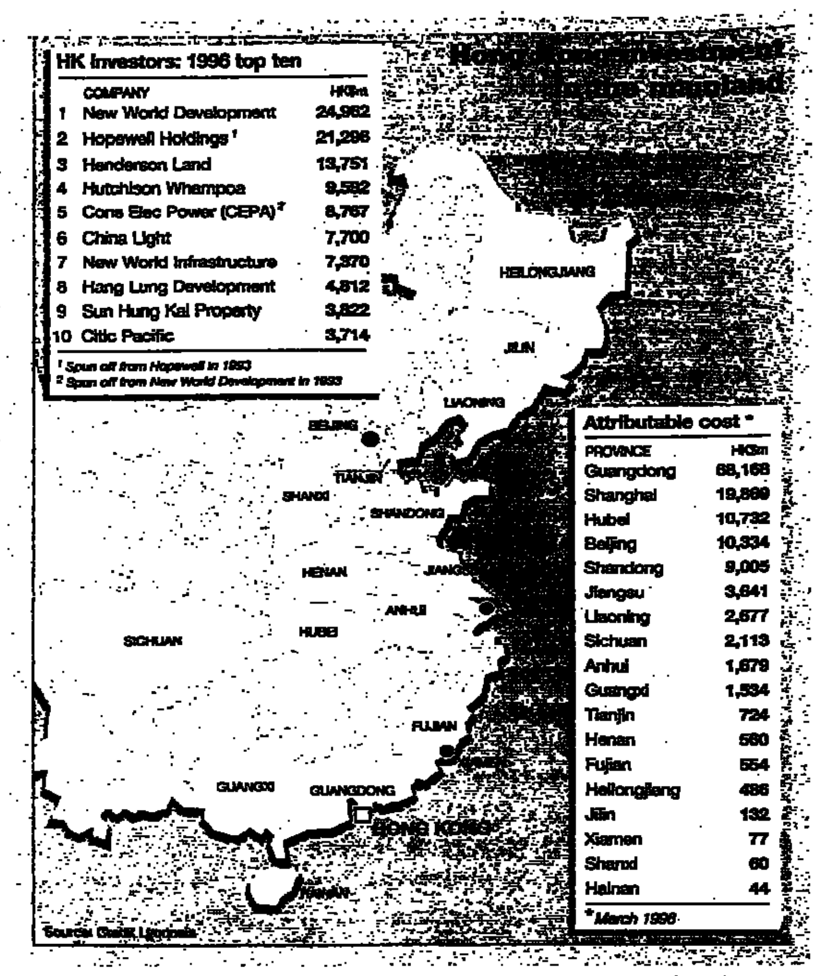
● Hong Kong is China's most important source of external investment. By the end of June 1995, the cumulative value of realised direct investment from Hong Kong amounted to about US$68bn – around 60 per cent of total foreign investment.

● Much of Hong Kong's investment has been in Guangdong province. At the beginning of 1995, the cumulative value of Hong Kong's realised direct investment in the province was estimated at US$25bn, accounting for more than 70 per cent of the total. More than 18,000 companies involving Hong Kong interests were registered in Guangdong.

● China, along with the UK, is the largest outside investor in Hong Kong. At the end of 1994, total direct investment from China was estimated at about US$20bn.

● Financial transactions between Hong Kong and China have grown substantially. At the end of June 1995, external claims by Hong Kong's authorised institutions on China's banks and non banking entities reached HK$201bn and HK$65bn respectively. Their corresponding external liabilities to banks in China amounted to HK$237bn.

Source: Hong Kong government



HK Investors: 1996 top ten

	COMPANY	HK$m
1	New World Development	24,982
2	Hopewell Holdings [1]	21,298
3	Henderson Land	13,751
4	Hutchison Whampoa	9,582
5	Cons Elec Power (CEPA) [2]	8,767
6	China Light	7,700
7	New World Infrastructure	7,370
8	Hang Lung Development	4,812
9	Sun Hung Kai Property	3,822
10	Citic Pacific	3,714

[1] Spun off from Hopewell in 1993
[2] Spun off from New World Development in 1993

Attributable cost *

PROVINCE	HK$m
Guangdong	68,168
Shanghai	19,869
Hubei	10,732
Beijing	10,334
Shandong	9,005
Jiangsu	3,641
Liaoning	2,677
Sichuan	2,113
Anhui	1,679
Guangxi	1,534
Tianjin	724
Henan	580
Fujian	554
Heilongjiang	486
Jilin	132
Xiamen	77
Shanxi	60
Hainan	44

* March 1996

KEY FACTS

Area .... 1,075 sq m
Governor .... Christopher Patten
Population .... 6.2m (1996 estimate)
Currency .... HK dollar
Average exchange rate .... 1995: HK$7.736 per US$

	1994	1995	1996*	1997*
Total GDP (US$bn)	132.3	150.5	166.7	179.2
GDP per head (US$)	21,833	24,321	26,709	29,285
Consumer prices (% change)	8.1	9.0	7.5	6.5
Manuf. output (% change)	0.5	1.8	0.9	0.9
Unemployment (%)	1.9	3.2	3.5	N/A
Money supply M2 (% change)	18.0	16.5	14.0	12.5
Minimum lending rate (%)	8.5	9.0	9.5	9.5
Total external debt (% GDP)	13.2	12.7	13.0	13.1
Current balance (US$bn)	2.7	-2.0	-0.3	0.6
Exports (US$bn)	151.4	176.4	196.3	216.4
Imports (US$bn)	161.8	194.3	214.8	236.6
Visible trade balance (US$bn)	-10.4	-17.9	-18.5	-20.2
Services trade balance (US$bn)	13.8	16.8	19.2	22.1

* estimated

Source: Economist Intelligence Unit

GDP components	(% 1994)
Private consumption	58.7
Total investment	31.3
Govt. consumption	8.1

Main trading partners	(% of total, 1995)
Exports	
China	33.2
US	22.1
Japan	5.9
Germany	4.2
Imports	
China	36.1
Japan	15.0
Taiwan	8.6
US	7.7

■ **Trade:** by Louise Lucas

A deficit, but no decline

Last year's balance of payments figures exposed the territory's more fragile side

Terminal progress: the world's biggest container port is expanding

Hong Kong was colonised for its port, the nucleus of trade, and a century and a half later it is still high-stacked vessels bearing goods that drive the economy.

There have, of course, been changes in the interim, the most recent of which has been the metamorphosis of a manufacturing-led economy into one characterised by services following the re-opening of China in 1978. Re-exports, goods en route from China and elsewhere docking at Hong Kong for either high-end embellishments and/or services such as insurance and freight forwarding, now account for some 80 per cent of total exports.

Yet, despite the colony's reputation as a trading heartland, its imports and exports balance is less than healthy. While the growth in exports is still a robust 14.9 per cent, Hong Kong last year posted one of its biggest trade deficits, sparking concerns in some quarters of a prolonged slowdown in the economy.

According to provisional government figures, the trade deficit last year stood at HK$147bn, almost double the previous year's HK$80.70bn. Private sector estimates suggest the deficit will not be wiped out by a compensatory surplus in services: instead, an overall deficit of some HK$22.3bn is forecast, or just under 2 per cent of the economy, according to the head of strategy at Crosby Securities, Mr Ray Farris.

The deficit is the result of two key factors – last year's domestic recession, which led to unintended inventory accumulation, and vast imports of capital and intermediate goods, mainly related to the construction of the new HK$158bn airport and its connecting rail link being built on Lantau island. (Mr Farris's calculations show that the last time the current account deficit hit around 2 per cent of the economy was in 1981, when the Mass Transit Railway underground train system was built.)

Exacerbating the trend was the relative weakness of the Hong Kong dollar, which is pegged to the US dollar, against European currencies and the yen: much of the big machinery imports were bought from Japan and Germany.

Another reason for the deficit is smuggling – a problem private detective agencies say is growing almost daily. One economist's calculations suggest it accounted for a $28bn deficit in cars alone in the first 11 months of last year. Meanwhile, transhipment – whereby Hong Kong ships components or raw materials to China, where they are used in manufacturing and then shipped back through Hong Kong virtually untouched – is making the situation worse. The colony supplies services such as insurance or transport for such shipments but they are not registered in the trade figures.

Notwithstanding these problems, the consensus is that last year's deficit is a blip rather than a U-turn in trading fortunes. Mr Tony Miller, director-general of the government's trade department, says: "Are exports going to continue to grow? The answer is, yes, of course they are. The question is, will they grow at quite such a phenomenal rate as the last 10 years? Answer: probably not, and may be that's a good thing. But growth will still be extraordinary compared with the rest of the world."

Mr Miller is perhaps entitled to his hyperbole. Since 1986, year-on-year export growth has averaged 20 per cent, with China and the US consuming the lion's share (respectively HK$447.6bn and HK$292.2bn last year).

Re-exports are the real engine of this, accounting for some four times the value of domestic exports. This, notes Mr Miller, again emphasises Hong Kong's role as a trading hub: "Singapore's figures are similar. That reflects the way modern communications are working – people find it convenient to run their distribution using all the latest tracking systems and Hong Kong and Singapore are the region's biggest and most efficient hubs.

"With re-exports what matters is volumes and the added value we put in in the services. We have a natural role, comparable with Amsterdam in Europe or New York in the US as a point of exit and entry for a huge hinterland and we make money out of that."

The biggest user – and, as it cuts both ways, market – is China. The country lacks a port with the capacity to receive the likes of grain and fuel. According to Mr Miller, this means not only that some 70 per cent of its exports go via Hong Kong but also some 50 per cent of its imports.

Equally ebullient about the future outlook for trade is Mr Victor Fung who, in his capacity as chairman both of his family's trading business and the colony's Trade Development Council, is well-versed and inclined to optimism.

"Hong Kong is already the world's biggest container port and second largest air cargo centre, and that's going to be the thing that cements our position as we go into '97 and beyond," he says.

Undeterred by the fact that expansion of the world's biggest port has been held hostage to Sino-British wrangling for the past two years, he stresses instead the flexibility of the economy which has, for example, seen mid-stream operations take off. (When there is port congestion, ships can unload goods on to lighter vessels, which now account for some 28 per cent of Hong Kong's volume.)

While China is Hong Kong's natural focus, the colony is very much involved in the international arena, standing up staunchly for free trade – it is the "purest defender in the faith of the multilateral system (now WTO)", says Mr Miller – and attempting to reverse international sanctions on China, to which Hong Kong is always vulnerable.

Mr Miller says: "We have always made the point – and we are not apologists for China – that encouraging trade and investment is going to be a stronger force for economic improvement and social improvement than denying them.

"Who could be more concerned about human rights than the average person in Hong Kong? But the point made here by business and others is that the linkage is not a helpful one; that it would hurt those on whom the process of reform actually relies."

As the world's eighth biggest trading economy, Hong Kong is afforded a fair voice in the World Trade Organisation and, more tellingly, has taken a pivotal role in the Asia Pacific Economic Co-operation (APEC), the grouping of countries that spans much of the non-European world. It is also attempting to build its own free trade region, which would be open to all countries, provided they played by the same rules.

While current account deficits may be a thing of the past, this year will not be plain sailing. Tension across the Taiwan straits and a US that is in election year and ever concerned with human rights abuses in China, do not augur well. Says Mr Miller: "This has always been a somewhat vulnerable place, and it will be a difficult year from that point of view."

■ **Sino-British relations:** by John Ridding

Pragmatism prompts a delicate detente

Despite improved relations between China and the UK pitfalls remain

The storms over Hong Kong have abated in recent months. Both Beijing and London officials talk guardedly of a more business-like approach from their opposite numbers and of an easing of the tensions that have dogged the final phase of British sovereignty.

But despite the warming of relations since mid-1995, the run-up to next year's transfer of sovereignty is riddled with risks. Differences, disagreements and latent disputes are still to be found in bilateral ties and could disrupt the smooth handover sought by both sides. "Better but brittle", is one UK diplomat's assessment of dealings with China. "This will be a difficult year; there are no illusions about that."

It was a series of top-level meetings that gave the impression of a new accord. At the end of last month, Mr John Major, the British prime minister, and Mr Li Peng, the Chinese premier, both spoke of easier relations after their meeting in Bangkok. Before that, the improvement had taken Mr Malcolm Rifkind, the foreign secretary, to Beijing and Mr Qian Qichen, his counterpart, to London.

More positive ties are also apparent from progress on once intractable disputes, such as the financing for the new airport in Hong Kong, and from an understanding on CT9, the new container terminal that is designed to consolidate Hong Kong's position as the world's busiest port.

Other advances include an agreement on the issuing of passports for the new Special Administrative Region (SAR), as Hong Kong will be known after the transfer.

The Sino-British Joint Liaison Group has also made headway: its 35th meeting last month brought Chinese agreement on Hong Kong's continued participation in more than 200 international treaties, from aviation to shipping, and progress in talks on the thorny issue of adapting laws to straddle the change in sovereignty.

But if the signs of improvement are clear, so are the motives behind them. China is aware that time is ticking away before it regains control of Hong Kong and that it needs to secure an orderly transfer. Its relations with the US have taken a tumble over trade and, more recently, Taiwan. "They can't take on the world at once," says one western diplomat, referring to the incentive to improve ties with the UK.

That the Taiwan issue looms large in Beijing's thinking, and that it represents a strategic consideration in policy towards Hong Kong, is clear from the leadership's recent statements. "The return of Hong Kong to the motherland is the first station in our Long March," the Chinese president, Mr Jiang Zemin, told the January inauguration of the preparatory committee, the body that will oversee the reimposition of Chinese sovereignty. "After that there is Macau and finally Taiwan."

For Britain, the motivation for a smooth transfer is the same as it has ever been. "They have to make the best of an essentially unsavoury task," says a political analyst at Hong Kong university. "They want to leave with dignity. A lot of attention will be focused on the handover, so how Britain leaves has important domestic political implications."

China's president, Jiang Zemin: his 'Long March' leads to Taiwan

In commercial terms, Britain cannot afford to alienate itself from China's rapidly developing economy. A 250-member trade mission is scheduled to visit China in May, just one mark of the importance attached to economic ties. Although the Hong Kong governor, Mr Chris Patten, argues that trade flows have not been damaged by diplomatic wrangling in the past, specific projects, such as the new container port, have been affected.

More broadly, business is keen to put 1997 behind it. "Once the Hong Kong issue is out of our hair then life will become a lot more straightforward," says the managing director of one UK industrial group with investments in southern China.

A mutual interest in a successful transition, however, does not imply that the transfer will be plain sailing. The sheer complexity of the unprecedented diplomatic task, the divergence of interests concerning some of the large number of outstanding issues, and the difficulty in establishing trust after a series of well-publicised spats suggest storms may again erupt. Nor is a smooth transition itself sufficient. "Success will be judged by what Hong Kong is like after 1997, by the extent to which we maintain the special features that have made Hong Kong work," says Mr Patten.

In predicting areas of further clashes, observers are keeping a weather eye on issues that relate to political control. China's pledge to abolish the legislative council, elected last year on the basis of reforms implemented by Mr Patten, and the composition of the bodies with which Beijing seeks to manage the transition, stand as sources of friction between the two sides.

In a tough speech earlier this month, Mr Major warned China that Britain would take steps to ensure compliance with the 1984 Sino-British Joint Declaration. "If there were any suggestion of a breach of the Joint Declaration we would mobilise the international community and pursue every legal or other avenue available," said Mr Major. China, however, has stuck to its pledge to dissolve the legislature, raising the prospect of a clash.

There are also problems with specific commercial cases. Despite progress on several fronts, Mr Hugh Davies, Britain's senior representative on the Sino-British Joint Liaison Group, expresses frustration about China's refusal to approve the award of six new mobile telecoms licences.

The handover ceremony itself provides plenty of potential for pitfalls. Britain is seeking a suitable – grand but not ostentatious – farewell on the 30th. China prefers to pencil in the following day for the significant ceremonies. "This is going to be one of the biggest and most complex tests of protocol," says one British official. "I would take a royal wedding any day."

For him, as for other observers, part of the problem in bilateral ties has always been a gap in comprehension and occasional suspicions of each others' intent. "The legacy of wrangles over the past few years has had an effect. But the difficulties go deeper. Our political cultures are different, so we are always having to overcome a hurdle of understanding, which is very time consuming."

The problem both sides face is that there is not much time left on the clock.

In tougher times: Chris Patten and Legco's president, Andrew Wong

■ **Politics:** by John Ridding

Enter the age of contention

Increased political activity poses a threat for Hong Kong's present and future government

Democratic shoots have pushed through the surface of Hong Kong's long-barren political landscape.

Prompted by the political reforms of the governor, Mr Chris Patten, democratic candidates scored a surprising victory in last year's elections for the colony's Legislative Council (Legco). Capitalising on concerns about the transfer to Chinese sovereignty and on local social issues, they have added a further complication to the handover in 1997 and beyond.

Beijing has pledged to push through its own political agenda, promising to dissolve the new Legco, which has provided a platform for some of China's staunchest opponents. But this stance has itself kept politics in the spotlight, focusing attention on the credibility of the institutions that Beijing is backing for its new Special Administrative Region (SAR).

"We have to remove anxieties about the political structures that will be put in place," says one of the 150 members of the Preparatory Committee, the Beijing-appointed body that will oversee the transition. "It is a question of ensuring autonomy for Hong Kong."

> Legco has been a platform for China's opponents

That anxieties exist was made clear in the Legco vote. These polls, the first to elect all 60 members of Legco, proved a triumph for Mr Martin Lee's Democratic Party and a blow for pro-Beijing groups.

Still more evident was a division among the politically active members of the population about how to deal with Beijing. "There has been a polarisation, a loss of the middle ground, and that is unfortunate," says Mr Tsang Yok-sing, head of the Democratic Alliance for the Betterment of Hong Kong, the pro-Beijing party that secured only a handful of Legco seats.

Mr Tsang argues that Beijing has been making efforts to heal the division. Senior Chinese leaders, including Mr Jiang Zemin, the president, and Mr Li Peng, the premier, have stressed their commitment to Hong Kong's autonomy. Recent polls suggest their message has hit home. A February study by the Transition Project at Baptist University showed an increase in the proportion with a positive view of China – vis à vis Hong Kong – and an increase in those identifying themselves as Chinese.

But if there are those who are reconciled to Chinese sovereignty, there are others who are still fearful. China has remained intransigent on the Legco issue and has focused much of its reassurances on the business community, rather than the public at large. There is no exodus, but emigration figures are rising. Mr Michael de Golyer, head of the Baptist University transition project, forecasts that between 90,000 and 100,000 people will leave this year, compared with a trend rate of below 60,000. Even those warming towards the idea of Chinese sovereignty may simply be resigning themselves to the inevitable.

"People know there is nothing that can be done about sovereignty," says one sociologist at a Hong Kong university. This does not mean that they are turning their backs on politics, he says, but that they are giving more emphasis to day-to-day concerns, from wages, to redundancy conditions and unemployment.

"People in Hong Kong have become more politicised in the sense that they want to express themselves on social and economic issues," says Mr Allen Lee, leader of the centre-right Liberal party. "That is one reason why political development will continue."

How it does so, of course, is the key question. Legco continues to provide the forum for immediate political issues, such as the establishment of pension funds, welfare concerns, and this month's budget. But much of the action is now happening elsewhere. The Preparatory Committee is laying the foundations for an electoral college of 400 Hong Kong people to select the first chief executive of the Special Administrative Region (SAR) of Hong Kong.

While the bustle around the new institutions suggests Beijing is getting down to business, it has failed to remove concerns. The Preparatory Committee is dominated by business interests and does not include any members of the Democratic Party, weakening Beijing's claim that Hong Kong will be governed by its own people.

Mr Patten warns of the potential risks in excluding the Democrats from the new institutions of the SAR. "How can you justify trying to lock out those who, according to the polls, represent 60-70 per cent of the people of Hong Kong?" he asks.

Much will also depend on the choice of chief executive. Several names have emerged to form a small group of frontrunners, including Mr Tung Chee-hwa, a shipping tycoon, and Mrs Anson Chan, the current head of the civil service. Other names touted include Mr Lo Tak-Shing, a former member of the colony's executive council, Mr Leung Chun-Ying, a businessman, and Mr S. Y. Chung, a former member of both Legco and the executive council.

A decision on the new chief executive is due by the autumn, but whoever takes the helm is likely to face a tough challenge. They will need to stand up to any interference from the mainland and ensure the smooth running of an administration, which, by dint of Hong Kong's economic importance, may well prove a focus of factional struggle. The task will be complicated by the local community's newly stirred political aspirations, and by the need to maintain the morale and efficiency of the civil service.

"If politics haven't been much of an issue here before, it is partly because the Hong Kong system has worked pretty well," says one diplomat. "If it starts to break down, or people feel their freedom and economic aspirations are threatened, then politics could matter a lot more."

Composition of Legco by party

February 1996

Party	Members
Democratic party	19 members
Independents	16 members
Liberal party	8 members
DAB	6 members
ADPL	4 members
No indication	2 members
Others	5 members
	Total 60 members

DAB - Democratic Alliance for the Betterment of Hong Kong
ADPL - Association for Democracy and People's Livelihood

■ **Manufacturing:** by Louise Lucas

Smaller, but perfectly formed

Although the industrial sector has contracted, its technological advantages remain

Hong Kong's proud shift from Asian sweatshop to sophisticated service centre would appear to be less than fully appreciated by the foreign investors who continue to spend billions of dollars in the shrinking manufacturing sector.

In 1994, the latest year for which data are available, the colony's manufacturing industries attracted HK$43.97bn in external investment, 8 per cent up on the previous year and some four times the figure in 1984. Japan leads the pack, accounting for a third of all external investment in manufacturing, but even China – Hong Kong's factory floor, as popular wisdom would have it – spent $1.2m, mainly in tobacco, transport equipment and electronics.

Bigger spending has less to do with spiralling overheads than building bigger stocks of fixed assets. That foreign investors continue to upgrade and expand their manufacturing plants in a place where rent and wage inflation make a mockery of the "cheap labour" concept is testimony to Hong Kong's good infrastructure and *highly skilled workforce.*

It also reflects the fact that the colony has changed its role in manufacturing. Mr Victor Fung, chairman of the Trade Development Council, explains: "As we integrate with the southern part of China we are retaining front and back end manufacturing processes in Hong Kong and just moving the labour intensive middle portion, keeping the design, marketing, engineering and financial side [banking, distribution, finance]."

His words are echoed by Mr Tony Miller, director-general of the government trade department: "From 1983–1993 our manufacturing workforce halved but the value of our manufacturing exports went up by 83 per cent. What changed was the composition of the industry and the scale of our investment in offshore manufacturing."

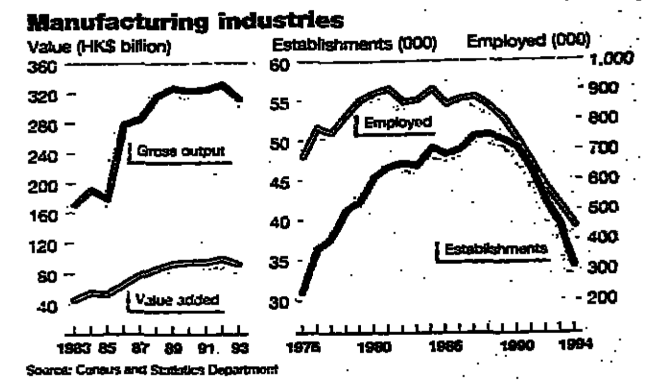
Moreover, manufacturing bosses contest that following Hong Kong companies over the border to southern China does not necessarily save dollars. Allow for a higher level of rejects and repairs, and add transportation costs to the big export markets, and the savings – especially in the electronics sector – become less impressive, they say.

Clearly this does not hold true for all goods. Companies in the textiles industry, once a mainstay of Hong Kong's manufacturing-oriented economy, have mostly migrated south. One of the last local businesses to up sticks was Winsor, which shut down factories and axed 600 staff last May, before heading to cheaper pastures.

Once protected by rules of origin that stipulated quota guarantees, textiles now face fierce competition from the likes of India and Pakistan. Countries no longer take their full quotas. Europe, for example, took less than 60 per cent of its allowance in 1994 and, says Mr Miller, that figure will probably fall to 55 per cent for last year. Although quota use has not declined so rapidly in the US, where profit margins are slightly higher, it fell to 95 per cent in 1994 and is calculated to have slipped to 90 per cent last year.

For the few remaining textile manufacturers, China remains *a tempting option.* Only last month, Fountain Set, a manufacturer of knitted fabric, spoke about the possibility of relocating its 500-worker fabric printing plant to China to cut labour costs.

By contrast, Hong Kong still has the edge in the manufacture of products as diverse as air fresheners, cigarettes and semiconductors. In the chemicals and foods industries, where quality is of paramount importance and precision technology essential, the territory is still the preferred location of a number of manufacturers.



While intra-Hong Kong expansion is still on the cards for many companies – some 21 per cent of foreign businesses investing in manufacturing in Hong Kong, according to Hong Kong government statistics – plans discussed even a year ago have been whittled down.

Research shows that interest in manufacturing in Hong Kong is declining. In 1994, 31 per cent of the companies that responded to the government's survey signalled an intention to expand production, while 52 per cent planned to maintain a status quo. Last year by contrast, 18.5 per cent were looking to phase out part or all of production, and 20.6 per cent to set up additional plants in China.

The need to stay competitive is what drives manufacturers across the border: discounted land and labour costs widen profit margins. Borthwicks Flavours and Fragrances (Asia), a British venture serving the food and air freshener industries based in Yau Tong in the New Territories, is a case in point. Last year, the company, which exports some 80 per cent of its output, swore by Hong Kong for its technical know-how and support. It believed Hong Kong offered the best technology in the region and last year proposed expanding its total investment in the colony, in keeping with an annual growth in sales of 20 per cent. Now, however, sales are no longer forecast to increase so rapidly and Borthwicks says it cannot hold off migration north.

As before, those most interested in maintaining a manufacturing base in Hong Kong are those making higher-end goods. Giants such as America's Motorola Semiconductors, which employs more than 3,000 people at its manufacturing sites in Tai Po Industrial Estate (dubbed "Silicon Harbour Centre") and Kwai Fung, are increasing their investment in Hong Kong manufacturing. Clearly, the colony's professional, technical and language skills as well as its infrastructure support, especially in telecommunications and computers are still a powerful attraction.

PROFILE Egana, watch maker

The wrong time to relocate

Egana of Switzerland (Far East), a watchmaker, reckons it could cut its manufacturing costs by as much as two-thirds simply by shifting operations across the border. This would not be a huge logistical task in itself – Egana already has production lines in Shenzhen where 150 workers produce mass-market watches for the likes of Esprit and Stefanel – but indirect *costs such as transport and* repairs would quickly whittle away the savings and work would be doubled.

Mr Peter Lee, a director of the group, says China is still "not ready" to subsume total output. It is a phrase repeated by manufacturers across the industries when it comes to contemplating complete relocation: labour may be cheaper but it is technically miles apart from that in Hong Kong and poor infrastructure means goods spend longer in *transit – as much a problem* for makers of high-fashion items, be it clothes or watches, as for makers of perishable goods.

For Egana, the manufacturing arm of Egana International – a watch distributor listed on the Hong Kong stock exchange, whose designer-label watches can *cost up to* US$10,000 – highly sophisticated technical skills are a must. Hong Kong provides those skills; equally important, its provides the *mentality that appreciates the* link between big price tags and quality of product.

Upmarket items need to be expertly handled, and because of this, Mr Lee does not see the Lai Chi Kok factory being closed down in the near future.

Volumes have been rising steadily since the company first opened 17 years ago. It produces up to 4m watches each year; its turnover in 1994 hit HK$1.1bn.

Manufacturing is done mainly for export markets, principally Europe and Japan. This provides a further reason for keeping the Hong Kong *operation for the time being:* although watches are relatively easy to transport, Chinese importing systems and customs services have the potential to wreck the flows of trade.

Until China's trade infrastructure can match Hong Kong's, Mr Lee says there would be "no point" in closing the Hong Kong factory. "Sometimes customs can cause unnecessary hindrance in China. At the moment it's smooth, but this could all change if we started putting through larger quantities," he continues. "The problem is in introducing cross-border activities. Everything is in-house in Hong Kong, and Hong Kong has the easiest structure for exporting infrastructure."

To pave the way for Egana's expansion plans and to penetrate the US market further, Egana late last year bought a 30 per cent stake in Peace Mark, a Hong Kong listed company whose watch manufacturing and product development is based in Tsuen Wan in the New Territories. Mr Lee reckons the acquisition will enable Egana group to increase its annual output of watches from 4m to 11m pieces, with the primary contribution coming from the Hong Kong operations.

■ **Broadcasting:** by Louise Lucas

The new-media minefield

The explosion of competition has led the terrestrials to lobby for regulatory reform

Broadcasting in Hong Kong, as in many places in the world, offers a fine example of the failure of regulation to keep pace with technology.

What makes Hong Kong different is the fact that its new master, China, has an aversion towards freely distributed information and is more likely to tighten than relax rules.

***The finer points of political* philosophy, however, are not the immediate concern of Hong Kong's broadcasters. What they feel threatened by is competition; the colony's two terrestrial stations, Television Broadcasts (TVB) (in which Pearson has a 10 per cent stake) and Asia Television (ATV) now fight for viewers and advertisers with a raft of home-made and imported programmes that has descended on Hong Kong courtesy of satellite and cable.**

Again mirroring the experience of other countries, telecoms companies are also getting in on the act. Hongkong Telecom, majority owned by the UK's Cable and Wireless and holder of the erstwhile monopoly on domestic calls, will next year unroll its pioneering video-on-demand service. Wharf Cable, which holds the exclusive pay TV franchise and is reckoned to have some 170,000 subscribers, is piggybacking on its fibre optic sheaths and ducts to run both TV services and fixed line telephone services.

The onslaught of competition in a 6m strong population (1.58m households) has not been without commercial rancour, exacerbated by the lack *of regulations. Earlier this* year, the government shelved plans to address a number of complaints in the broadcast bill, an omnibus piece of legislation covering broadcasting provisions of the television and telecoms laws.

The bill would also have addressed the issue of cross-media ownership, and would have set the ground rules upon which Hong Kong could lay claim to be the region's hub for satellite.

The delay to legislation is being exploited by Singapore, which is hoping to attract the big-spending companies.

One issue of ownership would have been especially pertinent to Star TV, the Hong Kong based satellite broadcaster owned by Mr Rupert Murdoch. Last year Mr Murdoch bought up the balance of Star TV from the family of Mr Li Ka-shing; the uplink licence, however, is still controlled by the Li family, in order to meet Hong Kong regulations.

However, a more immediate fight, between Wharf Cable and Hongkong Telecom, with the former arguing that the latter's video-on-demand service infringes on its own exclusive franchise, is to be *addressed as a priority. This is* as much a matter of necessity as anything else: a judicial hearing on the subject took place last month, instigated by Wharf because Hongkong Telecom then had plans to unroll its video-on-demand service in July. (Somewhat ironically, Hongkong Telecom has since announced its decision to postpone the service until mid-1997, citing improving technology and its desire to include an Internet service.)

The decision to shelve the broadcasting bill in favour of reviewing video-on-demand and cable TV has not pleased the terrestrials. Says Mr Alex Ying, general manager (corporate affairs) with TVB: "For several years we have been telling the Hong Kong government that the regulatory environment must be revisited. As a matter of fact, it should be revamped altogether. In 1990 there were only four terrestrial channels and today there are 28 channels, including cable and satellite.

"Out of this, the terrestrials represent four channels [TVB and ATV each run an English and a Cantonese language channel] and we are carrying an inordinate amount of regulatory burden that satellite *and cable operators do not* have to carry."

The cost of this burden is 10 per cent of advertising revenues paid in royalties to the government – the pay-off for a quasi-monopoly. For TVB, by far the bigger of the two, the bill last year was HK$220m. The terrestrials argue that this is excessive measured against levies on utilities.

Indeed, the outlook for TVB and ATV appears gloomy. With competition snapping at the home market, the logical move is to look at expansion overseas and partnership deals. These, however, are no guarantee of exclusivity. TVB, for example, boasts an extensive library of Chinese language programming and scored a massive success with "Judge Pao", a Taiwanese costume drama set in the Song Dynasty. It ran into trouble, however, when ATV began airing the same show.

In building future plans, TVB has not neglected to learn from the mistakes of its bigger-spending competitors, such as Star TV's early misconceived notion of English language programming for a pan-Asian market.

Mr Louis Page, the Sri Lankan born managing director of TVB and acknowledged right hand man to Sir Run Run Shaw, the 88-year-old chairman, outlines a two-pronged strategy: "We are dubbing existing programmes, which have proven to be very successful, all over Asia, and broadening our production. By using our production expertise to help in joint ventures with various local partners, such as the Hindustan Times in India and in Malaysia, we teamed up with Measat Broadcast Network Systems, launching two satellite channels in January."

■ **Telecommunications:** by Simon Davies

The late call of competition

HKT's monopoly has been broken, but there are still some obstacles to full liberalisation

Hong Kong's *laissez-faire* traditions have taken 70 years to stretch as far as fixed line telecommunications. But with three new network operators starting up last July, and a raft of mobile telecommunications licences due to be issued soon, competition is growing at a frenetic pace.

This might all sound like the death-knell for Hongkong Telecommunications (HKT), which has been the monopoly telephone company since 1925. Hong Kong's heavily concentrated population makes it ideal for developing telecommunications networks. Within eight months of receiving their new licences, the new operators – Hutchison Telecommunications, New T&T and New World Telephone, which are all owned by Hong Kong conglomerates – have built up coverage of the central business district.

Nonetheless, HKT has had plenty of time to prepare itself, and has created a fully digitalised network. More importantly, it retains its monopoly on international calls until 2006. Despite this regulatory protection, however, HKT has been given a few shocks. As Mr Adam Quinton, first vice president at Merrill Lynch, points out: "The new network operators are all serious companies, each with strengths which can improve their competitive position." These strengths include investment property portfolios, Wharf's cable TV network, and Hutchison's existing mobile phone business.

The competitors were expected to tackle HKT on niche services such as voice mail, leased lines and data services. However, they have got round HKT's international monopoly by linking up with international call-back service providers. This is not particularly profitable, and does not hurt HKT, which receives a handling fee for incoming calls that more or less neutralises any impact on profits. But it is a low cost means for competitors to attract fixed-line customers to whom they can then offer other services.

HKT is having to reshape *itself to face up to the prospect* of full-blooded competition in 2006. Mr Linus Cheung, HKT's chief executive, admits that the company has been held back by a monopolistic culture. "We have suffered from high overheads and overstaffing," he says.

Having laid off 18,000 staff in early 1991, HKT is now pursuing a programme of rapid downsizing. Staff numbers will fall by 2,500 over the next three years from the current level of 15,200.

Mr Cheung argues that HKT has been over-reliant on international revenues. "We plan to reduce that reliance from 60 per cent to 30-35 per cent over the next five years," he says. The group is considering further expansion of its mobile business and looking at areas such as multimedia (including video-on-demand services), the Internet, property development and overseas investment.

Mr Andrew Harrington, director of Salomon Brothers Hong Kong, predicts that HKT will have lost HK$1.5bn of revenues by the year to March 1998 as a result of the onslaught of competition. But the impact of cost-cutting and new services should still ensure steady profits growth.

Competition has had even more sweeping effects on the mobile telephone operators. Hong Kong already has as many mobile telephone operators as the UK, but the government plans to award new licences for personal communications services networks.

The subject, however, is politically sensitive. Bidders have been lobbying hard in Beijing, trying to put pressure on the government to issue just three licences, instead of the six that were proposed by the Office of the Telecommunications Authority (Ofta).

The market, however, could probably support six new entrants. The fact that only 11 per cent of the Hong Kong population owns a mobile phone, compared with 30 per cent in mature markets, suggests substantial potential for growth.

As one analyst says: "If Beijing intervenes to protect vested corporate interests at the expense of the consumer, it will carry alarming implications for Hong Kong's position as a competitive business centre."

Ringing the changes: the mobile market will get more competitive

FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday March 19 1996

IN BRIEF

Saks prospectus reveals losses

Saks Fifth Avenue is one of the most powerful names in US retailing. But a prospectus for the share offering by Saks Holdings, the department store chain's parent, shows this has not prevented it ratcheting up losses of $600m over the past five years. Page 20

Strong growth at Tele Danmark
Tele Danmark, the partly-privatised telecommunications group, was lifted by strong growth in net financial income as profits rose 38 per cent to DKr3.49bn ($612m) last year. Page 18

Deposit claim hits ITC shares
Shares in ITC, India's biggest tobacco group, slumped 7 per cent on news that it would have to pay an advance deposit of Rs3.5bn ($102m) if it wished to pursue an appeal against an Rs8bn fine for alleged tax evasion. Page 21

Irish group in $600m US expansion
Elan, the Irish pharmaceuticals company, is to pay more than $600m for Athena Neurosciences, a Californian biotechnology company. Page 23

Persson pleases Stockholm bourse
The Stockholm bourse jumped 1.8 per cent on the view that Mr Goran Persson, to be sworn in as prime minister on Thursday, would not deviate from the hard fiscal line that he initiated as finance minister. Page 36

Companies in this issue

Market Statistics

Chief price changes yesterday

FRANKFURT (DM)				Eng RSCG	537	+	30
Rises				Legris	256	+	16.7
Adidas	103	+	4.7	SGS-Thomson	183.4	+	16.4
Hafeldt Zorn	875	+	30	Falls			
Holzmann	826	+	11	Club Med	470	-	14
Falls				Taittinger	440	-	21
PWA	189	-	7	**TOKYO (Yen)**			
VW	488	-	8	Rises			
Zanders Feinpap	295	-	5	CSK	2800	+	130
NEW YORK ($)				Denon Sales	2770	+	170
Rises				Fanuk Elec	578	+	34
MEMC Elec	35¾	+	2¾	Falls			
Terra Nitrogen	47⅞	+	3⅛	Daiei	647	-	28
Falls				Hokuriku Bk	808	-	23
Dasco	18¼	-	2¼	Tokyo Car	612	-	37
Fleming Cos	15	-	1⅜	**HONG KONG (HK$)**			
Horizon CMS	14	-	2⅛	Rises			
RJR Nabisco	31⅛	-	1⅝	China Assets	3.35	+	0.3
LONDON (Pence)				Chinese Concept	3.3	+	0.3
Rises				Hitch	8.1	+	0.35
Brandon Hire	115	+	10	Lam	11.7	+	0.6
Dewhirst	232	+	20	Falls			
Manganese Bronze	254	+	17	Paragon Inv	12	-	0.6
RFS	129	+	13	San Miguel HK	4.05	-	0.225
Unitech	666	+	172	**BANGKOK (Baht)**			
Falls				Rises			
Fairbriand	282	-	92	Panasonic	110	+	8
TORONTO (C$)				Sri Charoen	81.5	+	7
Rises				Thai British	49.5	+	4.25
Arthur Jones	16⅛	+	1	Thai Stanley	115	+	9
Clearnet Comm	19⅜	+	1¾	Falls			
Delrina	16	+	1	Int For East	20.75	-	2
El Dos Logic	10⅛	+	1	Thai Packaging	18	-	2
Goldcorp Res B	15	+	1				
Falls							
Tort Euro Publ	12½	-	¾				
PARIS (FFr)							
Rises							
BIC	584	+	12				

New York and Toronto prices at 12:30.

MCI price move intensifies Internet wars

By Alan Cane in London

Moves by the world's leading telecommunications operators to take control of access to the Internet, the global network of computer networks, are accelerating.

Yesterday MCI, the second-largest US long-distance operator, announced improvements to its Internet network, the world's most extensive, and prices to challenge those revealed last month by AT&T, the largest US operator. The group plans to triple the capacity of its network and provide its customers with more value-added Internet services including help in creating their own pages of information on.

It said it would offer its long-distance customers five free hours of Internet access a month and unlimited access for $19.95 a month. This is similar to the offer made by AT&T when it entered the Internet access market in February causing alarm among service providers.

Mr Vint Cerf, an MCI senior vice-president and a founder of the Internet, said: "MCI's pioneering efforts in the Internet market have resulted in a $100m business that we expect to grow to a $2bn business by 2000."

Last year MCI took responsibility for running and maintaining the physical infrastructure of the Internet in the US after the government withdrew funding on the grounds that pump-priming was no longer necessary.

MCI intends to upgrade its backbone network, the high-speed information superhighway along which Internet data travels, by mid-April, raising the speed of the network from 45m data bits a second to 155m data bits a second.

Mr Cerf said: "The explosive growth of the Internet has led to rush hour traffic conditions for many users. MCI's network expansion is the equivalent of opening a new high-speed interstate highway for MCI's Internet users."

The MCI initiative is the first direct challenge to AT&T's move, which resulted in 212,000 customers signing up by the time the service went live on March 14. MCI said it would expand its local dial-up Internet service to 250 US cities by the summer and 300 cities by the end of the year. It said it would offer its customers a high-speed ISDN Internet access service by May.

Analysts expect the chief victims of the Internet wars to be the smaller service providers, companies which charge residential and business customers fees for Internet connection and on-line information services.

The moves by AT&T and MCI and British Telecommunications in the UK, which is offering a more expensive access service than its US counterparts to residential customers, are seen as an attempt to exert some control over a phenomenon which threatens to change the economics of the telecoms business.

Strong D-Mark blamed for 13% fall at Schering

By Judy Dempsey in Berlin

Schering, the German pharmaceuticals group, yesterday announced a 13 per cent fall in profits for 1995, caused largely by the strong D-Mark and growing competition, particularly from Japan.

Net profits fell DM37m from DM285m in 1994 to DM248m ($167.5m) last year, while sales declined 1 per cent from DM4.69bn to DM4.64bn over the same period.

However, Mr Guiseppe Vita, chairman, said he expected profits to surge 18 per cent this year on a sales increase of 9 per cent. This was in spite of the introduction of a higher tax rate in Germany. Yesterday the shares were up DM2.30 to DM118.30.

Mr Vita said sales for the first two months of this year had risen 6.5 per cent. The launch in Europe of Betaferon, Schering's multiple sclerosis drug which is already available in the US, and the promotion of Ultravist, its contrast media or X-ray product, would boost revenues.

Analysts said forecasts for this year were optimistic. "Schering has been over-optimistic in the past," said Ms Jo Walton, analyst at Lehman Brothers. "Its multiple sclerosis drug will for the first time this year face competition in the US. That could negate some of the growth expected from Europe," she added.

Schering was particularly vulnerable to last year's sharp currency fluctuations, as exports account for 85 per cent of its total sales. Mr Klaus Pohle, chief financial officer, said the currency turbulence cost Schering more than DM400m in revenue.

The US market accounted for 18 per cent of its sales, rising DM34m, or 4 per cent, from DM787m in 1994 to DM821m in 1995. Sales in Europe rose 1 per cent, from DM2bn to DM2.02bn.

Growing competition from Japan and a weak yen dragged down sales in the south-east Asian market, which last year accounted for a quarter of turnover. Sales revenue in the region fell 5 per cent, from DM1.2bn in 1994 to DM1.15bn in 1995.

Growing competition from Japan was also responsible for a 5 per cent decline in diagnostics, one of Schering's four main divisions, and where it is a world market leader. Sales last year accounted for 34 per cent of total revenue, a 2 percentage point fall on the previous year.

The withdrawal from the market of Isovist 280, a contrast media, cost Schering about DM150m in lost sales.

In AgrEvo, the joint venture agrochemicals group with Hoechst, Mr Pohle said Schering would seek a reduction of DM300m in costs over the next three years. Sales in AgrEvo last year rose 1 per cent to DM3.35bn.

Lex, Page 16

GEC confirms Simpson as managing director

By Bernard Gray and Tim Burt in London

Mr George Simpson, the chief executive of Lucas Industries, was yesterday confirmed as the new managing director of the General Electric Company.

Lord Weinstock, who he replaces and who has occupied the position for the past 33 years, will become chairman emeritus of GEC but will not remain on the board once Mr Simpson takes charge.

No date has been fixed for Mr Simpson's move. Lucas said yesterday that it expected Mr Simpson to remain with the group for several months and that he was unlikely to leave before the autumn. Lucas, which is today expected to unveil increased first-half profits of about £60m ($92m), compared with £44.5m, has already begun seeking a successor. "We are going through the normal process of recruitment," it said.

GEC's statement confirming Mr Simpson's appointment said Lord Weinstock's honorary position would give the company "the benefit of his long experience and profound knowledge of the company".

One GEC board member paid tribute to Lord Weinstock's generosity in confirming Mr Simpson at yesterday's meeting. "Letting go after so long must be a huge emotional wrench, but Arnold showed his quality by the way he handled the issue in the board."

Lord Prior, GEC chairman, is likely to stay for a further year or 18 months to help Mr Simpson settle in before a new chairman takes over.

GEC's hope may be that Mr Simpson will nurture a generation of younger managers who have been overshadowed by Lord Weinstock's dominance of the company for a third of a century.

Mr Simpson's team-building skills are seen as crucial in that regard, while his strong financial control will help provide continuity from Lord Weinstock.

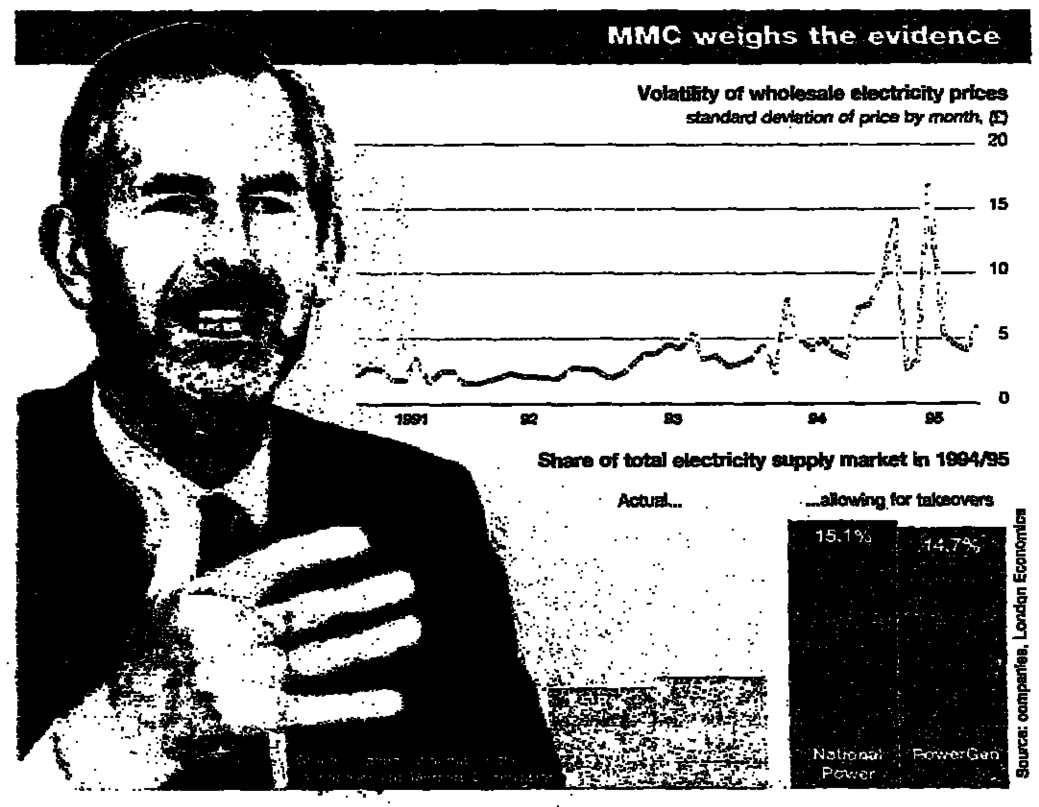
Mr Simpson will also have to make strategic decisions about the future direction of GEC's defence, power engineering and telecoms businesses, and decide the fate of its mixed bag of industrial businesses.

Lucas now has the job of finding a new chief executive. "It's a serious blow to Lucas," said one leading institution. "George Simpson has taken the right steps to improve things, but there is a risk that it could become a bid target before a successor arrives."

Shares in Lucas closed off 1p at 192p, while GEC eased 5p to 359½p.

Independents urge MMC to bar takeovers, **David Wighton** reports

Electricity generators seek to short circuit suppliers



A new round of consolidation in the UK electricity sector is expected to be triggered next month after the Monopolies and Mergers Commission delivers reports on the controversial bids by power generators for two of the largest suppliers – Southern Electric and Midlands Electricity.

Mr Ian Lang, the trade secretary, yesterday announced he had granted the MMC a two-week extension, to April 4, of the deadline to deliver its reports.

Some observers suggested the delay might mean the MMC is considering stringent conditions for National Power and PowerGen. But the generators' shares rose on the assumption that the bids will be cleared on terms acceptable to them – a move which is expected to prompt bids for other regional electricity supply companies (recs).

A number of the independent recs have argued that they will be at a serious competitive disadvantage if the MMC clears National Power to take over Southern and PowerGen to buy Midlands. Some believe the impact could be so severe they could no longer justify remaining independent. "If the bids go through I will be on the phone immediately asking to join the club," said the head of one independent rec.

In addition to Southern and Midlands, six of the 12 recs have been taken over in the past year. Other potential bidders – including a number of US utilities – are believed to awaiting the MMC verdict before making a move.

Northern Electric and other independent recs have argued before the commission that the proposed takeovers would operate against the public interest.

This is not merely because the bids would represent a significant increase in vertical integration between electricity generation and supply. Vertical integration is already developing because of the government's clearance of Scottish Power's takeover of Manweb and Eastern's expansion into generation. The problem, say the critics, is the combination of increased vertical integration and the two generators' dominant position in the Electricity Pool, the wholesale market in England and Wales.

At the behest of the industry regulator, both companies have agreed to make large disposals of stations to reduce their influence. But analysis by London Economics, a consultancy, suggests they would still set more than 60 per cent of prices.

National Power and PowerGen also dominate the market for "contracts for differences" which provide generators and suppliers with a hedge against fluctuations of the price in the Pool. Supply businesses offer fixed prices to final consumers and want to buy contracts from generators to lock in their purchase costs.

"Pool price volatility has nearly doubled since the regulator imposed a cap on average prices and with wafer-thin margins supply businesses still have to protect themselves by buying contracts from the generators," says Mr Robin Cohen, a director of London Economics.

By acquiring the two recs' supply businesses, National Power and PowerGen would provide themselves with an increased "natural hedge": high prices are good for generation profits, while low prices benefit the supply business. This means they would be able to reduce their sales of contracts to competing suppliers. Indeed, they would want to cut such sales to make rival suppliers' lives more difficult.

The generators' supporters point out that the takeover would not hugely increase their share of the supply market and would leave them far from completely hedged. The generators' success in the large user market, which has already been opened to competition, gave them a combined 12 per cent of the market last year. Buying the two recs, including their captive domestic supply customers, would have increased that to about 30 per cent.

There are other generators from which suppliers can get cover, even without the new entrants expected over the next few years..

But some of the independent recs insist the bids would significantly reduce competition in supply and that this in turn would discourage new entrants into generation. In addition, they say that generators could pass on highly priced power to the recs' domestic customers.

Northern's proposed solution is that the generators be required to sell yet more plant if the bids are to be allowed. But few believe that the MMC, under Mr Graeme Odgers, chairman, will reach such a conclusion.

Mr Dieter Helm, director of Oxford Economic Research Associates, says that whatever the problems caused by the generators' dominance of the Pool, they would only be made marginally worse by allowing the bids.

"The independents' big worry is that in 1998 the market will be incredibly competitive." Acquiring the recs would merely make National Power and PowerGen more formidable competitors.

HK group to float Harvey Nichols

By Peggy Hollinger in London and Louise Lucas in Hong Kong

The Princess of Wales's favourite shop is about to go public, with the announcement yesterday that Harvey Nichols will come to the market this year.

Dickson Concepts, the Hong Kong luxury goods retailer which bought the London store from Burtons in 1991 for £51m ($78m), is selling 49.9 per cent of its holding through a placing expected around the end of April.

Dickson, which has invested a further £17m in revamping the luxury London retailer, could more than recoup its initial investment with a price tag for the stake expected to be set at between £70m and £80m. This would value the store at between £140m and £160m.

The company yesterday refused to specify what it planned to do with the proceeds of the sale. However, analysts said Dickson could use the cash to buy a brand to sell through its existing retail outlets, or to clinch a new distribution deal through which existing brands could be sold. Dickson is already a successful luxury goods retailer in south-east Asia, covering brand names including Polo/Ralph Lauren, and last year notched up pre-tax profits of HK$405m (US$52.4m) on sales of HK$3.3bn.

Mr Joseph Wan, the chief executive who has presided over a turnround in Harvey Nichols' fortunes since 1991, said the time was ripe to float the store. It was making "respectable profits" and planning to expand.

Flotation would enhance its ability to finance that expansion although the placing itself would not raise any funds for the group.

Mr Wan said that since Dickson Concepts had purchased the store, the business had been transformed from lossmaking to returning profits of £6.6m. Harvey Nichols' operating profit this year is expected to reach about £9m.

"We are forecasting this trend to continue for the next two years," Mr Wan said.

Harvey Nichols is comprised of just one store on the Knightsbridge site it has occupied since 1880. The store, founded in 1813 as a linen retailer, now sells designer clothes, as well as gourmet food in its food hall and restaurant.

Mr Wan said that the company planned to extend the store concept to three or four locations around the UK, as well as developing a restaurant division based on the success of its chic Fifth Floor establishment.

Mr Wan said expansion plans also included the creation of a third business distributing international luxury brand names to other UK retailers. This would not only tap into a growing market in the UK, but also help enhance Harvey Nichols' own margins through increased buying power.

Morgan Stanley is sponsor and, with James Capel, joint broker, to the flotation.

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NEWS DIGEST

Securities sales put Ems-Chemie ahead

Ems-Chemie, the Swiss specialty chemicals group, has reported a 42 per cent rise in 1995 consolidated net income to SFr204m ($171.4m), mainly because of a surge in profits from securities sales.

The strong Swiss franc depressed markets, and sharp rises in raw material prices in the first half restrained operating income growth to 4.3 per cent, to SFr137.8m, on sales up 7.8 per cent at SFr923.7m. Net financial income more than doubled to SFr111.8m as the group took advantage of the buoyant Swiss stock market to sell some of its large portfolio of equities.

Mr Christoph Blocher, chairman, said no significant improvement in markets could be expected in the current year, so growth in operating income would depend largely on the stability of the Swiss franc. Financial income was expected to develop positively. *Ian Rodger, Zurich*

ISS hurt by overseas fall

ISS-International Service System, the Danish contract cleaning group with 138,000 employees worldwide, was hit last year by falling sales and profits in the US and Germany, leading to a fall in group net profits from DKr288m to DKr162m ($28.4m).

Overall, sales rose DKr158m to DKr14.39bn. Although there will be no increase in first-half sales and earnings this year, ISS predicted that for the full year it would meet its target of 10 per cent annual growth in sales and 15-20 per cent in earnings per share. Earnings per share slipped from DKr9.81 to DKr7.82 last year, but the dividend will be held unchanged at DKr2.30 a share. *Hilary Barnes, Copenhagen*

Tulip let down by PC weakness

Tulip Computers' market share was under pressure in 1995 due to poor sales of home computers. However, it retained its position in the professional market, the Dutch company said yesterday. Net profit rose to Fl 9.2m ($5.6m) last year, against Fl 7.2m in 1994, on turnover of Fl 532m, up from Fl 456m.

Some 13 per cent of 1995 sales were generated by PCs made for Unisys of the US, against 8 per cent in 1994. These so-called original equipment manufacture (OEM) products were not included in Tulip's market share, director Mr Franz Hetzenauer said. "Our unit shipments rose 36 per cent in 1995, while the total European market grew 22 per cent. So we must have gained market share," Mr Hetzenauer said. Tulip said it broadly agreed with Dataquest, the market research agency, that it shipped 225,000 computers in 1995. Tulip's higher shipments partly reflected increased OEM products and its expansion in Asia. In China, it sold 8,000 PCs in 1995, its first year of business there.

Tulip said it had had underperformed in the Netherlands while sales elsewhere were stronger. The company had generated 35 per cent of sales in its home market, against 39 per cent in 1994. Although its overall market share in the Netherlands fell to 6 per cent, Tulip remained confident. *Reuter, Amsterdam*

Italy names new exchange head

Mr Francesco Cesarini was yesterday formally elected president of the Italian Stock Exchange Council following the nomination of a new stock exchange board earlier this month. Mr Cesarini, who is chairman of Banca Popolare di Milano, was expected to take over the presidency from Mr Attilio Ventura. He will preside over the stock exchange as it moves towards privatisation and adapts to new European Union rules on the harmonisation of investment services. Mr Attilio Molendi was elected deputy president. *Andrew Hill, Milan*

Financial operations buoy Tele Danmark

By Hilary Barnes in Copenhagen

Strong growth in net financial income helped boost net profits at Tele Danmark, the partly-privatised telecommunications group, by 38 per cent from DKr2.57bn to DKr3.49bn ($612m) last year.

Sales and profits before net financial items, however, grew only slowly, with turnover up 5 per cent from DKr17.87bn to DKr18.84bn and operating profits by 3 per cent from DKr4.18bn to DKr4.31bn.

Net financial items swung from a 1994 loss of DKr260m to a gain last year of DKr1.14bn, reflecting a strong Danish bond market and a reduction in group debt following the big privatisation share issue in mid-1994.

Operating profits were held back last year by a deeper deficit on foreign activities, up from DKr166m to DKr298m; increased agency subsidies for mobile phones, ahead from DKr40m to DKr240m; and falling prices for international calls.

Mobile phones remained the fastest growth sector, with turnover up 18 per cent to DKr1.74bn, but still only 9 per cent of total turnover.

There was a 34 per cent increase in cellular phone subscribers, to 500,000.

Revenue from international calls dropped DKr17m to DKr2.98bn as charges were cut, although traffic increased by about 9 per cent. The group said operating profits on its domestic business would increase, although it expects intensifying competition.

The Danish telecommunications market will be fully liberalised from July 1 this year, including the market in line-based voice telephony. But there will be substantial investment and depreciation on Tele Danmark's foreign business.

Total operating profits this year "may improve", the company said. Net income is expected to be down because net financial income will be lowered by heavy investment in foreign operations.

The board proposed an increase in the dividend on B shares from DKr12 to DKr16 per share, after an increase in earnings per share from DKr19.6 to DKr26.7. The dividend total will rise to DKr1.07bn from DKr827m.

Meanwhile, Mr Frank Jensen, minister for research, was quoted as saying the government had no plans for reducing its 51 per cent share in Tele Danmark. The share price closed DKr5 down at DKr329.

Tele Danmark is a member of a consortium which acquired a 49 per cent share in Belgium's Belgacom in December. It also recently won a licence with Polish partners to establish a GSM cellular network in Poland.

Nokia revamp complete with NKF stake sale

By Hugh Carnegy in Stockholm

Nokia of Finland yesterday announced the final step in a four-year transformation from sprawling conglomerate to a pure telecommunications group, with the sale of its majority shareholding in NKF, the Dutch cable maker.

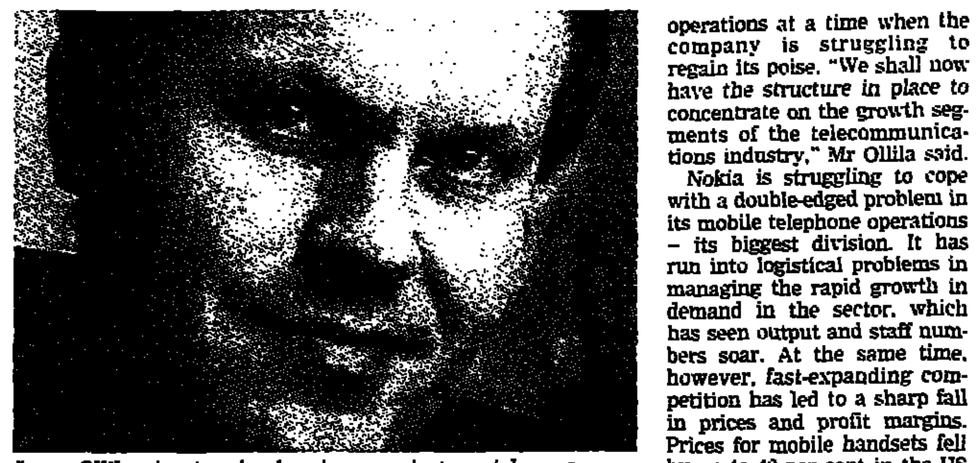
The disposal follows a difficult time for Nokia in which problems in its mobile telephone and consumer electronics operations sent profits into reverse in the final four months of 1995 and forced it to warn of another profits setback in the first half of 1996.

The company, which until mid-1995 had experienced three years of rapid profits growth, will be hoping that the disposal of NKF and the planned sale of its loss-making television set production unit will improve its standing with investors.

After becoming one of the world's hottest technology stocks on the back of its spectacular successes in mobile telephony, Nokia's share price collapsed by 50 per cent after peaking last September.

Nokia's 55 per cent stake in NKF was sold for Fl 200m ($121.1m) in a deal with ABN Amro Hoare Govett for onward sale to investors. Nokia said it had made a small capital gain on the NKF investment, first made in 1989.

After the planned sale by mid-year of its television production unit in Europe, Nokia will be virtually wholly-concentrated in telecommunications, with its biggest operations in mobile telephony. Only four years ago, when Mr Jorma Ollila, the current chief executive, took over, the group included paper, tyres, metals and electronics, as well as telecoms.



Jorma Ollila: structure in place to concentrate on telecoms

The final move to focus exclusively on telecoms will free management to concentrate completely on core operations at a time when the company is struggling to regain its poise. "We shall now have the structure in place to concentrate on the growth segments of the telecommunications industry," Mr Ollila said.

Nokia is struggling to cope with a double-edged problem in its mobile telephone operations - its biggest division. It has run into logistical problems in managing the rapid growth in demand in the sector, which has seen output and staff numbers soar. At the same time, however, fast-expanding competition has led to a sharp fall in prices and profit margins. Prices for mobile handsets fell by up to 40 per cent in the US last year, and by as much as 25 per cent in Europe and Asia.

A top Nokia executive said last week prices had continued to fall this year.

Upbeat Telecom Italia increases dividend 14%

By Andrew Hill in Milan

Telecom Italia, Italy's state-controlled telephone company, yesterday proposed a 14 per cent increase in its ordinary dividend, on the back of a strong rise in net profit for 1995.

The group, controlled by Stet, the state telecoms holding company, confirmed its own December forecast of a 20 per cent increase in net profit with L1,745bn ($1.1bn) for 1995, against L1,450bn in 1994. Turnover rose from L29,100bn to L30,088bn.

Direct comparison between 1994 and 1995 figures was complicated by the demerger last July of Telecom Italia Mobile (TIM), the group's cellular phone business, along with a small satellite operation.

Adjusted to exclude TIM and the satellite activities, Telecom Italia's turnover showed a 7.9 per cent increase to L28,288bn, slightly ahead of expectations, against L26,212bn in 1994. Pro forma figures for net profit were not released, but the group said operating profit, excluding TIM, had risen from L4,251bn to L5,112bn.

Analysts said investors' attention was likely to be focused on the dividend increase. "Now [Telecom Italia] doesn't include a cellular business, the long-term top-line growth is going to be fairly modest and investors expect a decent yield," said one.

For 1995, the board is proposing an increase in the dividend from L105 per ordinary share, to L120. The dividend on savings shares will increase from L125 to L140.

Telecom Italia also revealed a sharp drop in net debt, to L14,787bn at December 31 against L18,543bn a year earlier. Labour costs as a proportion of sales were cut from 24.1 per cent to 23 per cent.

Telecom Italia is under increasing pressure to continue improving efficiency and service, as new competitors prepare to challenge the company in its domestic market. Last week, Infostrada - the telecoms joint venture between Olivetti, the computer group, and Bell Atlantic of the US - announced plans to enter the market for long-distance telephone calls in Italy.

Mr Francesco Chirichigno, Telecom Italia's chief executive, said the company was preparing for competition in every field, but he again called on political institutions to "play their part" in solving regulatory and tariff problems in time for European liberalisation.

Earlier this year, the Italian government attempted to push through a restructuring of tariffs, which would have brought Telecom Italia into line with European competitors by reducing international call charges and increasing some peak-rate local charges. The move was frozen after complaints from unions and users, and now seems unlikely to be relaunched until well after Italy's April 21 elections.

ABB shrugs off reports of turbine 'teething problems'

By Stefan Wagstyl, Industrial Editor

ABB, the large Swedish-Swiss engineering group, yesterday admitted there were "teething problems" with its latest generation of gas turbines, but said they were no bigger than normal for a new product.

Gas turbines are a core business for ABB, accounting for 30 per cent of its turnover in power engineering, which in turn amounts to about one-third of the group total.

The company denied there were any inherent weaknesses in the new design and said the cost of putting the problems right was well within the provisions set aside for rectification work.

ABB was responding to a Swiss newspaper report which said that design and construction faults had emerged in the new turbine, the first of which was delivered last year to Jersey Central Light and Power, a US utility.

It said the report exaggerated the problems. It added that every new turbine had teething troubles which were normally corrected within a few months.

Provisions were always set in advance for remedial work and the actual costs had never exceeded provisions.

The company said the Jersey turbine, the first of a new range called GT24 and GT26, was installed last July and would be handed over on schedule in May.

Other units were due to be delivered soon to customers in Germany and South Korea.

● ABB Atom has won a SKr200m ($29.4m) order to supply nuclear fuel to the Grohnde nuclear power station in Germany, Reuter reports from Stockholm.

The power station is owned by PreussenElektra and Gemeinschaftskraftwerk Weser.

The first delivery will take place at the end of 1997.

Borsalino aims to recapture past glories

Italian hat maker has plans for expansion, reports John Simkins

The problem for Borsalino, the illustrious Italian hat maker, is that fewer people are buying its products.

Mr Giuseppe Petrone, managing director, boasts that: "Other manufacturers produce hats - we make a Borsalino. People don't buy our hats just because they feel hot in summer or cold in winter."

The company was founded in 1857, and its felt hat for men became as much a symbol of Italy as Campari or Gucci.

Last year 200,000 were sold, but in 1913 the company produced 2m. However Mr Petrone, who joined Borsalino in 1993, intends to restore the company's lustre and give it a sharper marketing edge.

This year Borsalino, which has 100 employees at its plant in Alessandria, north-west Italy, will open shops in Moscow, Tokyo and Osaka, and one in Germany, either in Berlin or Hamburg.

It will also open Borsalino departments in stores in Paris and Seoul, and hopes next year to have a presence in New York as well as another shop in Europe.

Borsalino exports 65 per cent of its hats and estimates that one fifth of its buyers are Orthodox Jews. Previously it has relied on sales abroad through 300 client-shops, and the decision to open its own outlets is a turning-point.

Formerly Borsalino would never have made a cloth cap, but now it produces about 20 different styles

"Until now people came to us, but now we must go to them to promote our idea of the 1990s Borsalino," says Mr Petrone. "The hat world has remained old, and producers have not stimulated demand."

The more aggressive approach will focus on the women's and youth markets, seen as Borsalino's growth areas, as well as men's hats.

Within Italy, where the company has 400 client-shops, it has refurbished its own two shops in Milan and added a third there in prestigious Via Spiga. Besides a shop in its home town it has also opened outlets in Florence and Asti, near Alessandria.

Turnover rose from L14bn in 1994 to L18bn ($11.5m) last year and 1996 sales are expected to total L21bn.

The Marenco and Gallo families of Asti, which took over Borsalino in 1993 with a 96 per cent stake and brought in Mr Petrone, intend to invest L10bn in the business in the next three years. The remaining 4 per cent of the equity is held by a descendant of the founder, Giuseppe Borsalino, whose son Teresio in his turn managed the company until 1930.

After the second world war, however, it ceased to be virtually compulsory for men to wear hats - men's hats comprise 90 per cent of the company's output - and Borsalino's decline became inexorable, if stately.

The cachet given by famous Borsalino wearers such as Ronald Reagan and Mikhail Gorbachev and the 1970s film *Borsalino*, starring Alain Delon and Jean-Paul Belmondo, proved insufficient to revive demand.

Borsalino is adding to its accessories made under licence and extending a large range of hats which include its Montecristi Panama made from Ecuadorean straw.

Previously, Borsalino would never have made a cloth cap, but now it produces about 20 different styles in 40 colours. However, the company intends to remain at the top end of the market - its most expensive felt hats cost about L500,000.

Nor does Mr Petrone, whose wife Dominique is a designer, see any need with such a handmade product to update machinery, which in some cases dates back to the turn of the century.

COMPANIES AND FINANCE: EUROPE

Quest for faster growth in a stagnating market

The Ciba-Sandoz alliance in agrochemicals reflects an urgent need for consolidation, reports Jenny Luesby

Ciba and Sandoz have created the largest agrochemicals producer in the world in forming drugs group Novartis, reflecting an urgent need for consolidation in the £55bn ($84bn) market.

As farmers turn away from agrochemicals towards "integrated" crop protection, based on resistant seed strains, crop rotation and the selective use of environmentally-friendlier chemicals, the sector is stagnating.

Ciba, already the world's largest maker of agrochemicals, last year said it saw "no hope" of a take-off in the agrochemicals market. This year, global agrochemical sales are expected to grow by just 1 per cent, despite a rise in farm incomes.

Meanwhile, environmental concerns have brought additional costs for producers in the form of stringent registration procedures. In the UK, the *British Agrochemicals Association estimates the latest rules* have increased the cost of product *registration nine-fold.*

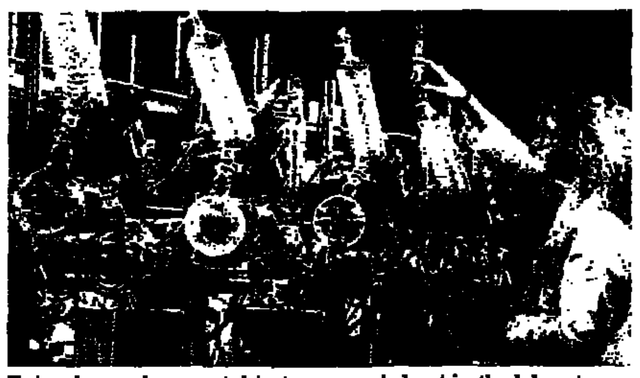
In Germany, BASF calculates that the new registration system, which applies to existing as well as new products, *requires a dossier of up to 60,000 pages or 250kg, at a cost of up to three man-years and 500,000 Ecu ($400,000).*

These costs have led to the withdrawal of some agrochemicals, *useful only for small* crops, such as fruit and vegetables, and concentrated development on the markets with the highest potential, such as cereals, cotton and rice.

Novartis's product range reflects this. Eight of its 16 best-selling herbicides are for maize and a further three are for cereals, as are six of its 10 leading fungicides.

But large-crop products are no guarantee of growth, or even satisfactory profits. The strategic question for chemical companies is how to transform their agrochemical operations to meet farmers' continuing need for crop protection.

The first move by many was into the seed industry, where it was hoped biotechnology would provide a new route to disease and insect-resistant crops. But a seed company shopping spree 10 years ago has been slow to deliver, leaving chemical companies carrying low-margin businesses, where each season's demand is determined by the previous harvest. For Zeneca, the pain was too great. Last month it spun off its seeds business, while retaining its seeds research arm.



Extensive environmental tests are carried out in the laboratory

Novartis remains committed to a high-tech seeds operation. But agrochemicals also have a role in integrated crop protection, says Mr Axel Rienitz of Ciba's crop protection business.

The challenge is to reduce residues, by developing compounds that break down quickly after use, concentrated chemicals that can be used selectively, and diagnostic kits, to help farmers target their applications.

A new form of the herbicide metachlor and the fungicide *metalaxyl, unveiled by Ciba* last week, is as effective as the old products, but at application *rates 38 to 50 per cent lower.*

The commercial logic of reducing use rates rests on the consequent *increase in market* share, says Mr Rienitz. Farmers, under pressure from retailers and consumers to reduce residues, will switch to low-use products. "It's a question of politics," he says.

But innovating from a base of elderly products is expensive. Agrochemical producers already spend between 20 and 22 per cent of their sales revenue on marketing. R&D accounts for a further 10 to 12 per cent – a similar ratio to the drugs industry, but without the returns.

Hence the need for consolidation, says Mr Allan Woodburn, an agrochemicals consultant.

The Ciba-Sandoz alliance has brought little product overlap. The new agrochemicals company will specialise in cereals, soybeans and cotton. *Herbicides will account for more* than half its sales, and *fungicides for a further 27 per cent.*

But, with 5 per cent of the world market, Novartis will be *in a position to pare back its* marketing and production costs and spread its R&D budget over a broader sales base.

This puts it in a highly desirable position among agrochemicals producers.

After Novartis, the next largest competitor is AgrEvo, the Hoechst-Schering joint venture, with a market share of just 2.7 per cent: and the top 10 producers together only account for 26.1 per cent of world sales.

"There is going to be a lot more consolidation in this sector," says Mr Woodburn, who suggests that "the market cannot support more than 10 large companies".

Mr Jurgen Dormann, chairman of Hoechst, agrees: "There are lessons for all of us, in agrochemicals as well as in pharmaceuticals, in the move by Ciba and Sandoz," he says. "You can expect changes at AgrEvo to reflect that."

NEWS DIGEST

Hydro-power groups eye Hafslund arm

Hafslund Nycomed, the Norwegian pharmaceuticals and energy group, said yesterday it had received a NKr4.1bn ($638m) offer to buy its hydro-power division from a group of Norwegian hydro-power generators. However, it deferred a decision on the bid until after a planned demerger of its own operations. Last year, Hafslund Nycomed shareholders rejected a planned $3.25bn merger with Ivax of the US.

A group of eight Norwegian power companies, all owned by different local authorities, made the offer to buy Hafslund's 10 hydro-power plants and its distribution network. Hafslund produces about 4 per cent of Norway's electricity output – but three of its 10 plants are in the US.

However, the Hafslund Nycomed board said it planned to proceed with plans to spin off its energy operations, which trade under the name Hafslund, to its shareholders in May. The move, if approved by shareholders, will give one share each in the separated pharmaceuticals and energy companies for every four held in Hafslund Nycomed.

The board said it would be up to the newly-formed Hafslund to decide whether to accept the bid after the demerger took place. The group currently has a market capitalisation of NKr18bn. *Hugh Carnegy, Stockholm*

Böhler sell-off well received

Austrian investors have snapped up privatisation shares in *high-grade steelmaker Böhler-Uddeholm, lead managers* Creditanstalt Investment Bank said yesterday. "In the first week we have sold 65-70 per cent of the domestic tranche," the bank said. *OIAG, the Austrian state holding company, is* offering 3m ordinary shares in the second stage of Böhler's privatisation. Of the total, 40 per cent will be placed on the *Vienna stock exchange.* Creditanstalt *said the sale of shares to* foreign investors would begin this week. The OIAG has said a further 600,000 shares may be added if the offer is oversubscribed. *Reuter, Vienna*

Genoa to privatise utility

The Italian city of Genoa is set to become the country's first municipality to privatise its gas and water utility. The decision is part of a trend in Italy to give municipalities greater control over their finances. In the past year, Naples and Rome have obtained credit ratings in anticipation of legislative changes that will allow local authorities to issue debt in the public markets.

Paribas, the French bank, has been appointed to advise Genoa on the stock market flotation of Azienda Mediterranea Gas e Acqua di Genova (Amga), which last year made a profit of L23bn ($14.7m) on turnover of L261bn. Paribas said it was too early to give any market valuations of Amga. *Antonia Sharpe*

German and Austrian banks target former Yugoslavia

By Cordelia Becker

German and Austrian banks are showing growing interest in the former Yugoslavia. Following the lifting of United Nations economic sanctions against the war-divided country last year, the banks' Croatian business is expanding rapidly. Now they are planning to set up in Bosnia-Herzegovina and Serbia.

"In January, we were in Belgrade for our first meetings," says Mr Gerd Weyers, of the Düsseldorf-based Westdeutsche Landesbank. Before the war, WestLB worked closely with several banks in Serbia and Bosnia-Herzegovina, and was also present in Belgrade.

For WestLB, Serbia is a promising market. It is fairly big and expected to recover quickly, as the dinar's depreciation is fuelling growth in exports. This growth is crucial to the Serbian economy's prospects. WestLB plans a moderate credit line to finance exports. The bank is also watching other markets: Bosnia-Herzegovina is interesting because of the international aid it is attracting, but it has also been badly damaged, Mr Weyers said.

He said WestLB's most important business would be short-term credit lines with maturities of up to one year. Longer credit lines would only be awarded where there is a government-backed guarantee. The bank refused to finance infrastructure projects, as these remained too risky and should be dealt with by multilateral lending organisations such as the World Bank, Mr Weyers said.

WestLB's short-term Croatian credit business was running smoothly, Mr Weyers said, even during the military campaign in the Krajina region. "The £13.02m ($19.8m) we lent in 1994 was all payed back on time," Mr Weyers said.

Deutsche Bank in Frankfurt also cites the Croatians as reliable debtors. However, it is more cautious about business in Serbia and Bosnia-Herzegovina, preferring to wait until the peace proves permanent and the new governments are prepared to give guarantees.

Bayerische Landesbank in Munich is optimistic about business in Croatia, largely because of the potential for tourism. In recent years, it provided short-term credits to the Balkans with a repayment period of six months.

The Raiffeisenzentralbank Austria in Zagreb is the only western bank operating in Croatia. It received a Croatian licence in December 1994 and started business a month later. "The lack of kuna, the local currency, is the biggest problem.

"Short liquidity prevents deals," said Mrs Renate Kattinger, vice-president of RZB Austria. The currency emerged with Croatia's declaration of independence. Supply is tight because the government wants to avoid inflation, and the use of other currencies is restricted by law.

Most of RZB's 60 employees in Zagreb are Croatians. This year, it plans to set up an investment bank and a leasing company, as well as retail operations.

Store's cachet expected to lift interest in Saks IPO

By Richard Tomkins in New York

Saks Fifth Avenue may be one of the most powerful names in US retailing, but a prospectus for the planned share offering by Saks Holdings, the department store chain's parent, shows this has not prevented the group racking up losses totalling $600m over the last five years.

Even so, after the highly successful stock market flotation of the similarly fashionable Gucci on the New York Stock Exchange last year, Wall Street is expecting the cachet associated with the Saks Fifth Avenue name to generate a similar degree of excitement over Saks's planned $300m offering.

Like Gucci, Saks is being spun off by Investcorp, the Bahrain-based investment group that bought the department store group from BAT Industries of the UK for $1.6bn in 1990. BAT sold it to fend off a hostile bid by Sir James Goldsmith, the Anglo-French financier.

Saks is one of the most upmarket department store groups in the US. Its main stores are best known for their ranges of designer clothing and accessories, selling goods made by Gucci and other well-known names such as Chanel, Ferragamo, Calvin Klein and Ralph Lauren. The company has 40 Saks Fifth Avenue department stores across the US, five smaller department stores in resort areas, 19 Off 5th stores offering end-of-line merchandise, and a catalogue operation called Folio.

In spite of the company's size, the flagship Saks Fifth Avenue store in New York accounts for 22 per cent of total revenues. Saks's preliminary filing with the Securities and Exchange Commission shows that Investcorp has done a good job in increasing the company's sales. Revenues have risen each year over the last five years, and in the latest period to February 3, they were up by 19 per cent to $1.69bn.

However, the prospectus also shows that the company's heavy debt burden – amounting to $976m at February 3 – has been a big factor in preventing Saks from turning in an annual profit at any stage since Investcorp bought it.

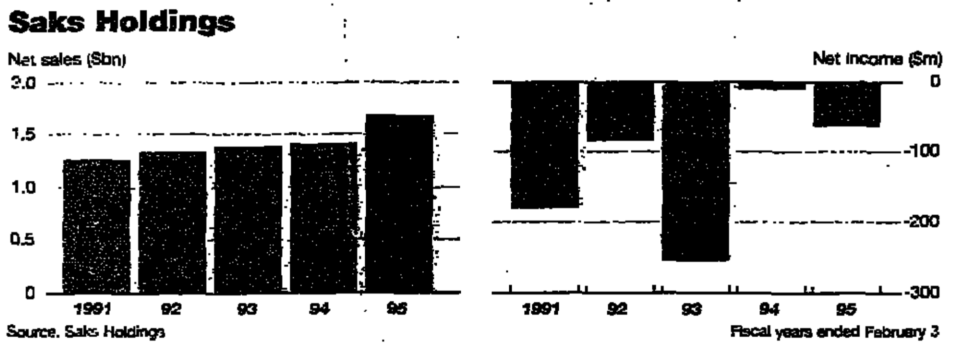
In the latest period, Saks made net losses of $64.1m, up from $10.6m the year before.

Saks wants to use the proceeds of its stock offering to pay off some of its debt and assist a return to profitability. A flotation will also help fund the company's continuing expansion: it plans to open three new department stores and four new resort stores over the next three years.

Significantly, however, the company's biggest area of expansion is its Off 5th division, which is expected to double in size with the opening of 21 new stores by the end of the next fiscal year. One effect will be to increase the company's exposure to more budget-conscious customers.

Saks says the Off 5th chain provides attractive financial returns and is an economically superior form of inventory liquidation for its main stores. But the strategy risks prompting anxiety among would-be investors: Saks may look a lot less like a potential Gucci if it is determinedly taking itself downmarket.

Saks Holdings



Source: Saks Holdings

GM looks to build on the stellar success of Saturn

Problems with capacity and a sales drive in Japan will test the project's strength, writes Haig Simonian

When more than 44,000 Saturn owners descended on rural Tennessee to celebrate the 10th anniversary of the project in 1994, General Motors realised it had beaten its own hype in creating "a different kind of company; a different kind of car".

This, after all, was not an gathering of clubby gentlemen in their Bentleys and Ferraris. Neither exotic nor vintage, GM's Tennessee-based Saturn car division produces three unobtrusive and inexpensive models that drive acceptably but hardly set the pulse racing.

In sales terms, Saturn, created in the mid-1980s in a last-ditch stand to win back sales from the Japanese, has exceeded GM's wildest dreams. The company produced 302,000 cars last year – almost 6 per cent more than in 1994 – and in line with a steady rise since the first saloon rolled off the line in 1990.

The danger now is that Saturn could become a victim of its own success. The company has virtually exhausted capacity at its $1.9bn greenfield Spring Hill plant. "We're very close to capacity right now," says Mr Don Hudler, Saturn's president. "We're trying to identify bottlenecks. If we could produce more, we could sell more."

Mr Joe Rypkowski, president of the local branch of the United Auto Workers union, reckons output could rise from this year's target of 310,000 cars to between 330,000 and 340,000 by eliminating bottlenecks and improving productivity. But even he admits matters would stop there.

GM will shortly have to decide whether to expand Saturn. The decision, expected to be positive, will be linked to a widening of the model range by adding a larger vehicle to the current sedan, coupe and station wagon.

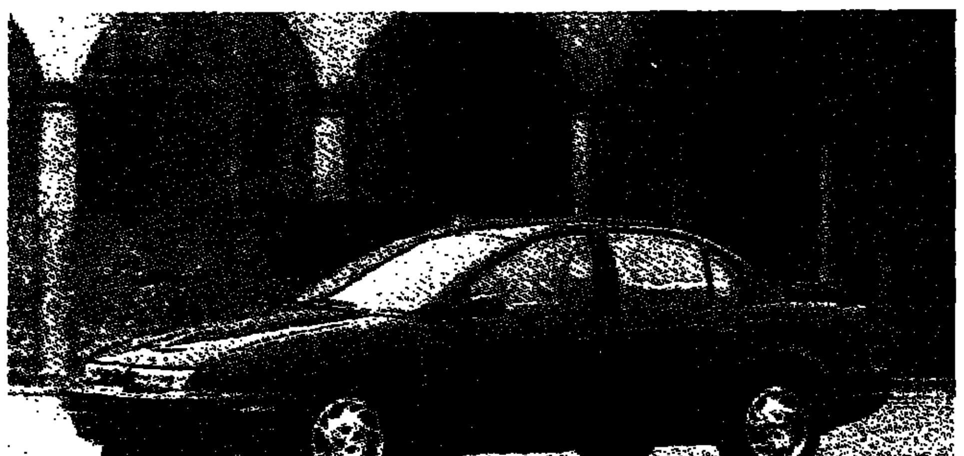
Going ahead will not just be a boost for Saturn and its loyal owners, who have been clamouring for more cars, but will also mark a crucial phase in GM's strategy of "saturnising" other parts of the organisation.

Saturn had, until now, been an isolated experiment. Conceived to break away from the high wages and restrictive labour practices of Detroit, it marked a joint effort by unions and management to manufacture vehicles at competitive prices to the Japanese in an environment that remained unionised.

Saturn's workers, almost all transferred from traditional GM plants, accepted a 10 per cent wage cut as part of the intricate "memorandum of agreement" between their representatives and management. In return for more flexible working, GM agreed to a more Japanese style of management, blurring demarcations between workers and bosses and opening the door to collective decision-making.

The experiment has worked. Although Saturn's financial results are buried in GM's group accounts, it is believed to have turned its first profit last year, triggering a staggered $10,000 bonus to each of its 8,000 workers. Its cars, meanwhile, have won plaudits for customer satisfaction in independent surveys, helping to explain the extraordinary loyalty around the brand.

That loyality has been nurtured – created, say some – by Saturn's sales techniques. All Saturn dealerships conform to a standard design. "We want to make this the best retail experience you ever have," says Mr Hudler.


A Saturn SL2: sales of the range have exceeded GM's wildest dreams

Saturn's main ploy has been fixed prices. Unlike traditional dealers, haggling is not on the agenda. "People are guests in our retail facilities," says Mr Hudler. "We're there to help them buy a car, not pushing to sell. Rather than haggling, people say they want a fair price."

The pitch has been so good GM is to trying to introduce it elsewhere. It is starting with Oldsmobile, a traditional brand now realigning itself towards much the same type of younger, higher income and better educated owner who has taken to Saturn. Apart from fixed-prices, new Oldsmobile dealerships will be expected to conform to a standard layout.

But it is arguably the "saturnisation" of GM's factories which will have the most far-reaching consequences. The new, bigger Saturn, being developed in Germany by a team of engineers from both sides of the Atlantic, will be based on GM's Vectra mid-sized saloon. Mr Louis Hughes, head of GM's international operations, says it could be out within two years. "The concept is advanced but it has to be tested," he says.

However, in what will be a blow to the Tennessee workforce, the new model is likely to be built elsewhere. "We believe firmly that the Saturn concept can be put into another location," says Mr Jack Smith, GM's chairman. "What we don't want to do is to put a huge expense at Saturn because we carry a huge amount of plant which will become redundant."

He admits not every plant would be suitable. The choice will depend on "the right attitudes" locally. However, "there are plenty of places where that could be done", he says.

The decision will come fairly soon, according to Mr Smith. "It's under major study right now. We're close to a decision."

Some suggest GM will choose a plant in Delaware, which has opted for more flexible working practices. Wherever the choice, the outlook for Saturn looks rosy. US sales should continue to climb as more dealerships are added. The present 324-dealer network is still predominantly urban and should reach 370 by the end of the year. Turnover could also be boosted by selling more cars abroad: exports at present are limited to Canada and Taiwan.

But the company's biggest challenge is still a year ahead. In early 1997, Saturn will start exporting to Japan. The exacting Japanese market will provide the ultimate test, says Mr Hudler.

Japan has a special significance for the group, which was created to prove the resilience of the US motor industry against imports. "Learning to trade in the very demanding Japanese market will make us more competitive in the US," says Mr Hudler. "Selling to Japan will also make a statement about Saturn's quality and GM's commitment to international markets."

NEWS DIGEST

MCI joint venture boosted by BT buy

MCI, the second largest US long-distance carrier, and British Telecommunications are hoping to extend the services of their joint venture, Concert, to New Zealand. The UK company yesterday announced it had acquired a 25 per cent stake in Clear Communications, New Zealand's second largest telecoms operator. MCI already holds a similar stake in Clear. BT purchased its stake for an undisclosed sum from Bell Canada. The other shareholders in Clear are Television New Zealand and Todd Corporation.

Mr John Ede, Clear chairman, said: "Clear Communications will benefit from BT's global experience and technical expertise and the already well established relationship between BT and MCI and the Concert joint venture." Concert is a "global supercarrier" offering seamless voice and data transmission services to large international customers.

The move represents a strengthening of BT's presence in the Asia-Pacific region, where it is weak compared with Europe or the US.

Clear began private network services in New Zealand in January 1991, national toll services in May 1991 and international operations in December of the same year. In the financial year 1994-95, it made a profit of NZ$28m (US$20.3m) on turnover of NZ$340m. *Alan Cane, London*

Knight Ridder in cable sale

Knight Ridder, the US media group, is to sell its interests in jointly owned cable TV properties to its partner, Tele-Communications Inc (TCI), for up to $420m. The sale, part of a wider consolidation in the cable industry, strengthens TCI's position as the biggest US cable operator.

The sale comprises a half-interest in TKR Cable, which operates in New York and New Jersey, and 15 per cent of a larger network in the southern US. TCI has the choice of paying either $250m cash plus $120m in stock, totalling $400m, or a $420m package of $140m cash, $140m stock and $140m in further stock not tradeable for two years.

Knight Ridder said the value of its cable interests had not been fully reflected in its stock price. It would use the cash to accelerate its stock buy-back programme, and for small or modest-sized acquisitions in newspapers and business information. *Tony Jackson, New York*

Templeton in Venezuelan move

A 4.45 per cent share in Electricidad de Caracas, the Venezuelan utility, has been bought by the Hong Kong-based fund manager Templeton International for Bs19.55bn ($67.5m). The share package, offered by the state deposit guarantee fund, Fogade, was bought up the Venezuelan bank Bancaracas on behalf of Templeton.

The sale of the stake comes after Electricidad de Caracas announced a substantial cut in its capital investment for 1996. A recent request by electricity companies to raise their rates was not granted, despite last year's inflation of 56 per cent and an increase in costs of 40 per cent since the beginning of 1995. *Raymond Colitt, Caracas*

Perez to sell oil services arm

Perez Companc, Argentina's diversified energy holding company, yesterday said it was selling its oil services division, Quitral, to Houston-based Pride Petroleum Services for about $140m.

The Argentine company owns 72.45 per cent of Quitral, which provides drilling, well-head and other technical services. Perez said it was discussing the sale, which should be completed by June, with holders of the remaining shares, including local hydrocarbons group Astra.

Mr Frank McGann, vice-president at Merrill Lynch in Buenos Aires, said sale of the unit would have "little strategic significance" since there were many oil services groups to which Perez could contract out such work. *David Pilling, Buenos Aires*

Bre-X Minerals seeks partner

Bre-X Minerals, the Calgary-based exploration group, intends to seek a partner later this year to help develop the potentially large Busang gold deposit in Indonesia. Mr David Walsh, chief executive, said that Bre-X, which has a 90 per cent stake in Busang, planned to sell up to 25 per cent of the property to a group capable in "size and stature" of bringing the deposit into production. The partner would also operate the mine, which is expected to enter production around the turn of the century.

Bre-X suggested the deposit might be much bigger than the current estimate of 30m oz. Only about a quarter of the Busang property, which is part of an extensive "gold belt" stretching across the island of Kalimantan, has so far been explored. *Bernard Simon, Toronto*

COMPANIES AND FINANCE: ASIA-PACIFIC

ITC shares slip on call for fine deposit

By Mark Nicholson in New Delhi

Shares in ITC, India's biggest tobacco company and affiliate of BAT Industries of the UK, slumped Rs17, or 7 per cent, to Rs234 yesterday on news that the company would have to pay an advance deposit of Rs3.5bn ($102m) if it wished to pursue an appeal against an Rs8bn fine for tax evasion.

The fine was imposed in January by India's tax authorities following their charge, denied by ITC, that the company had evaded taxes on cigarette sales between 1983 and 1987 by colluding with retailers to charge more for cigarette packets than the marked retail prices.

ITC, which is India's biggest corporate taxpayer, immediately appealed to India's Central Excise and Gold Control Appellate Authority (Cegat). This body ruled at the weekend that it would hear the appeal only if ITC paid a deposit of Rs1.1bn by April 30, and Rs2.4bn thereafter in eight monthly instalments.

In Bombay shares were immediately marked down on high turnover of 300,000 shares yesterday, up from average daily turnover of around 50,000 shares.

A spokeswoman for ITC said lawyers were considering the court's order and that the company would "take recourse to all legal remedies in the best interests of the shareholders". She said the court would be able to hear ITC's appeal only next year, if the company agreed to pay the deposit.

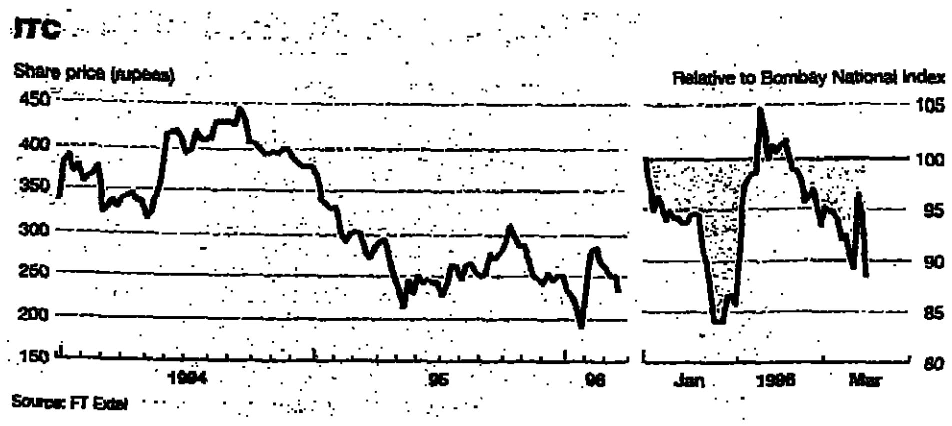
ITC also has the option of appealing against Cegat's call for the deposit, a course which might lead to the matter moving to India's supreme court.

ITC would not comment on either where they might draw the required funds for the deposit or, if it were paid, how it would appear in next year's accounts. The company reported pre-tax profits of Rs2.62bn for the 1994-95 financial year.

Analysts in Bombay said it would remain unclear how the tax demand or deposit would ultimately affect the company until it emerged whether and where it was to find the deposit.

However, the company, which commands 70 per cent of India's cigarette market, has liquid investments of around Rs1bn and can expect a cash flow in the order of Rs2bn for this financial year, according to analysts with foreign brokerages in Bombay.

The company had, until 1994, carried the then potential tax demand, which has been the subject of official inquiries since 1987, as a contingent liability in the accounts. It was dropped as such in the latest accounts.



Source: FT Extel

Samsung, Hyundai team for telecoms licence

By John Burton in Seoul

In a rare display of co-operation, Samsung and Hyundai, two of South Korea's fiercest industrial rivals, have agreed to make a joint bid to operate a lucrative new telecommunications service.

The pair hope to gain one of three licences to be awarded by the government in June to provide personal communications services (PCS) in Korea.

Demand for PCS, which is a low-cost alternative to cellular phone systems, is predicted to grow sharply in Korea, with the number of subscribers estimated to reach 10m by 2005.

The government this month said it would split the PCS licences among three categories of operators.

One would be reserved for state-run Korea Telecom, while the other two would be awarded to a telecom equipment maker and a company not involved in producing telecom equipment.

The guidelines came as a blow to Korea's four leading industrial groups, all of which produce telecom equipment, since they had expected to capture at least two of the PCS licences.

The criteria were meant to prevent the Korea's largest business groups, or chaebol, from dominating the telecommunications market as it becomes deregulated.

Analysts believe agreement between Samsung and Hyundai will give them an advantage in winning the PCS licence against separate bids offered by the Daewoo and LG groups, unless the latter two also join forces.

The reason is that the government wants to see the huge profits expected to be generated by the PCS system to be split among several chaebol instead of going to a lone conglomerate, which could use the proceeds to strengthen its economic dominance.

The PCS joint venture between Samsung Data Systems and Hyundai Electronics, which will be capitalised initially at Won200bn ($256m), will operate separately from the two groups.

The consortium will include 100 subcontractors that provide telecom components to Samsung and Hyundai.

Meanwhile, several medium-sized industrial groups, including Kumho, Hansol and Dacom, are competing for the licence allocated to a company not involved in making telecom equipment.

Besides PCS, the government in June plans to issue licences in six other telecom sectors, including an international call operator, paging systems, and wireless data transmission.

Foreign operators are barred from the Korean telecom market until 1998.

Pacific Magazines in A$175m bid for CD maker

By Nikki Tait in Sydney

Pacific Magazines & Printing, the Australia-based magazine publisher 44.9 per cent owned by Mr Rupert Murdoch's News Corporation, yesterday launched a A$175m (US$136m) cash and shares bid for Shomega, the largest compact disc manufacturer in Australia.

Pacific Magazines said the takeover would allow customers of both companies "the choice of medium in which information is delivered, be it print, compact disc, film or video".

"The acquisition will also promote cost-efficient delivery of the information and offer customers an entry point into new media options such as interactive services," said Mr Ken Catlow, PMP chief executive.

PMP said it was making its offer after talking to Mr Peter Sidwell, Shomega chief executive, whose family company, Luge, holds a 38.7 per cent stake in the CD manufacturer. Luge has given PMP an option over 19.9 per cent of Shomega's shares, exercisable at the bid price if a rival bidder emerges.

But Shomega, which floated on the stock market in 1993 and also takes in graphic arts and video cassette duplication and distribution divisions, did not immediately endorse the PMP bid. It said it would probably make a statement once it had appointed an independent expert to value its shares.

PMP is offering A$3.85 in cash plus one PMP share for every four Shomega shares, valuing each Shomega share at about A$1.75. If the offer is successful, News' stake in PMP would be diluted to around 40.4 per cent.

In the last full year, Shomega made pre-interest profits of A$21.4m, on sales of A$161.4m, although its recent interim profits showed a sharp slump. Its CD production capacity was last year expanded to 55m units a year, year, and it has been expanding into the print sector, acquiring Canberra Press, a catalogue printing operation, this year.

Shomega shares were suspended after the PMP announcement, but when they resumed trading yesterday afternoon, they immediately jumped to A$1.80 – slightly ahead of the PMP offer price. The shares had previously closed at A$1.46 on Friday.

Japanese banks face IBCA credit downgrade

By Emiko Terazono in Tokyo

IBCA, the European rating agency, yesterday said it had placed the long-term credit ratings of several leading Japanese banks on review for possible downgrade.

The agency placed on watch Dai-Ichi Kangyo Bank, Sumitomo Bank and Sanwa Bank – which all have long-term ratings of AA and individual ratings of B/C – and announced that the individual rating of Bank of Yokohama, currently at B/C, will also be reviewed.

Although IBCA believes that the banks can deal with their asset quality problems, it sees the continuing sluggishness in the economy and declines in land prices as factors affecting their profitability.

The banks have made large loan loss provisions, with Sumitomo reporting a net loss during the last business year, but their "return to health and to an acceptable level of profitability has been delayed beyond the agency's previous expectations", it says.

The agency says a gap has widened over the past few years between the banks' individual ratings (which have fallen in tandem with their deteriorating financial condition) and their long-term ratings (which consider the country rating), because of the significant role of the banks in the financial system and the country's economy, and their close relationship with the financial authorities.

The relationship has been affected by the continued wrangling over the housing loan crisis, and the agency plans to assess the implications of this shift for the banks' long-term ratings, it says.

● Asahi Shinkin Bank and Asakusa Shinkin Bank, two credit associations based in Tokyo, will sign a merger agreement today.

Consolidation among small financial institutions trying to survive amid increasing competition and cost pressures are expected to increase in the near term, and other mergers are expected to follow.

NEWS DIGEST

Deficit at Australis 'within expectations'

Shares in Australis, the Australian pay-TV company, tumbled by 11.5 per cent yesterday, shedding 9 cents to close at 78 cents, following news of the company's A$97.5m (US$75.44m) after-tax loss in the year to end-December. The company, which became the first pay-TV company to launch a service in Australia in early 1995, claimed that the result – announced late on Friday – was "in line with expectations and the number of subscribers, and is characteristic of a start-up business in the capital-intensive pay-television industry".

But it also admitted it was receiving short-term financial support from TCI, the largest cable group in the US, which holds an interest in Australis, and was "negotiating a longer-term financing package in co-operation with TCI".

Australis had been planning to merge with Foxtel, one of Australia's two cable consortia, and a partnership between Mr Rupert Murdoch's News Corporation and the government-owned Telstra telecommunications group. However, the deal was blocked by Australia's competition authorities. Australis said that "despite extensive discussions and numerous representations" it had still not made any headway with the competition regulators. *Nikki Tait, Sydney*

Hysan Development advances

Hysan Development, the Hong Kong property investment company with a strong presence in the office and shopping district of Causeway Bay, announced a 15.2 per cent rise in annual net profits from HK$1.06bn in 1994 to HK$1.22bn (US$157m) last year.

Shareholders are to be rewarded with a one-for-20 warrant issue, on top of a final dividend of 68 cents a share, compared with the previous year's 61 cents. Taking the interim dividend into account, the payout is HK$1.05 against 95 cents last time.

The sluggish property market took its toll on the company's revalued property and investment portfolio: net asset value at the end of last year stood at HK$29.66 a share, compared with HK$35.98 previously. Earnings per share improved 15 per cent to HK$1.22, while operating profit climbed 20.4 per cent to HK$1.45bn.

The company said it had raised HK$688m from its 1995 warrants, which expired on December 31 last year, and reported progress in four projects in Singapore and Shanghai. *Louise Lucas, Hong Kong*

Increased lines lift Telkom

Telkom, the state-controlled Indonesian domestic telecoms company, said net income in 1995 rose 14 per cent to Rp907bn, ($388m) primarily because of an increase in the number of telephone lines in service. Lines in service in 1995 rose 34 per cent, to 3.29m lines, higher than the forecast 31 per cent increase expected for 1995 at the time of the company's initial public offering last November. Increased call volumes pushed operating revenues 26 per cent higher to Rp5,105.1bn. Other expenses fell by 35 per cent to Rp102.5bn in 1995 primarily due to increased interest income earned from the $771m raised during the IPO.

Telkom expects 1.6m lines to be installed in Indonesia this year, of which about 1.2m will be added by Telkom, at a cost to the company of $2.1bn, and the remainder by private-sector consortia. *Manuela Saragosa, Jakarta*

■ Qantas, the recently-privatised Australian airline, and British Airways, its 25 per cent shareholder, are to "integrate" their operations in Bangkok and Singapore. The two carriers will establish joint offices in both cities and merge their sales, marketing and operational activities, although the two airline "brands" will remain distinct. *Nikki Tait*

Performance based on comparisons with other leading oil groups over 5 years

Nine BP executives to share £10m

By David Lascelles, Resources Editor

Nine present and former directors of British Petroleum are to share in an award of £10m ($15m) of shares under the company's long term performance plan.

They include Mr Robert Horton, the former chairman ousted in a boardroom coup in 1992, a year after the plan was initiated. He will get shares worth £223,000.

According to the company's annual report released yesterday, Mr Horton "was able to initiate certain changes which have benefitted the performance of the company". BP said the changes included the reorganisation of the headquarters in 1990 which boosted efficiency.

Other former executives who qualified for the award were Mr Hugh Norton, managing director until last year, who gets £1.75m, and Sir David Simon, now chairman, who receives shares worth £860,000.

The largest recipients among current directors are Mr John Browne, chief executive, who gets shares worth £1.7m, Mr Steve Ahearne, the finance director (£1.6m), Mr Bryan Sanderson, head of chemicals (£1.6m) and Mr Russell Seal, head of human resources (£1.1m).

The long term performance plan was introduced in 1991 to replace share options.

Shares are awarded after five years based on BP's returns compared with other leading oil groups. Mr Peter Sutherland, chairman of the remuneration committee, said BP had outperformed the stock market over the period, producing a return of 15 per cent a year. Earnings had increased by 87 per cent, and return on capital went up from 9 to 14 per cent. The awards were based on a 60 per cent achievement of the targets laid down in 1991.

Tony Andrews

Robert Horton: headquarters actions boosted efficiency

Pearson and Carlton to launch Indian channel

By Raymond Snoddy

Pearson, the media, information and entertainment group, is joining other investors including Carlton Communications to launch a general entertainment Hindi-language satellite channel for India.

The deal – which has yet to be formally signed – would represent the first move into Indian television by both Pearson and Carlton.

It would involve an initial investment of $45m and a commitment to spend $200m over the next five years.

The first hint of the satellite plan was revealed yesterday by Mr Frank Barlow, managing director of Pearson, as the company announced profits in line with expectations for the year to December 31.

Boosted by capital gains of £131m ($200m) from the sale of its direct stake in British Sky Broadcasting, Pearson increased pre-tax profits for 1995 by 23 per cent to £365m.

The decline in operating profit was attributed to a £25m drop in the operating contribution from BSkyB, and a £35m increase in restructuring costs. These included £8m from the closure of its the Financial Times Docklands printing site; £8m on redundancies at Westminster press, the regional newspaper group; and a £17m provision for "back-office reorganisation".

One of the biggest setbacks was in the entertainment division, where Mindscape – the US CD-ROM and games group acquired for $462m in 1994 – lost £6.9m. Mr Barlow said it was a completely unacceptable result from a company that has cost more than £300m. Mr John Moore, the new Mindscape chief executive, said there were no plans to sell the company.

A number of US competitors had also experienced difficulties because of rapid changes in the market, he said.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Argos	Yr to Dec 30	1,436	(1,257)	124.4	(100.2)	27.5	(22.3)	9♦	May 23	7.85	13	10.5
Astec (BSR)	Yr to Dec 31	371.8	(312.2)	28.1	(21)	7.33	(5.86)	1	June 11	0.8	1.5	1.2
ASW	*Yr to Dec 31*	*641.9*	*(464.3)*	*13.8♥*	*(4.2♠)*	*17.1†*	*(6)*	*0.7*	*June 7*	*3*	*4*	*6*
BCE §	6 mths to Dec 31	4.14	(2.41)	1.22L	(0.199)	0.44L†	(0.28)	nil	-	nil	-	0.09
Black (A&C)	Yr to Dec 31	7	(6.6)	0.564	(0.601)	25.7	(28.4)	9.75	July 2	9.75	14	14
Brockbank φ	Yr to Dec 31	6.99	(6.1)	3.9	(1.62)	19.76	(8.27)	2	Apr 19	1	7.32	6.32
Bunzl	Yr to Dec 31	1,759	(1,622)	106.2	(4.9L♠)	15.5	(8L)	3.8	July 1	3.2	5.8	5
Doeflex	Yr to Dec 31	57.4	(38)	3.05	(1.82)	17.85†	(12.45)	4.6	May 31	3.7	6.7	5.3
Edinburgh Oil & Gas	*Yr to Dec 31*	*3.29*	*(2)*	*0.562‡‡*	*(0.185‡‡)*	*1.62*	*(0.6)*	*0.25*	*Apr 26*	*nil*	*0.25*	*nil*
Glynwed Intl	Yr to Dec 30	1,252	(1,025)	84.2	(67.1)	25.76†	(21.34)	8.35	June 7	8.1	12.75	12.25
Hammerson	Yr to Dec 31	127.4□	(121.3□)	57.7♠	(107.5♥)	13†	(34.3)	7.15	May 24	6.5	10.65	10
MAID	*Yr to Dec 31*	*13.6*	*(8.89)*	*4.05L*	*(1.29)*	*4.42L*	*(1.14)*	*-*	*-*	*-*	*-*	*-*
Manganese Bronze	6 mths to Jan 31	48	(41)	2.54	(1.97)	10.11	(7.25)	2.5	Apr 11	2	-	5
Mayborn	Yr to Dec 31	49.1	(43)	5.6	(4.9)	18.8†	(16.1)	4.95	May 31	4.4	7.2	6.4
Mid-States	Yr to Dec 31	80.5	(77.6)	0.689♠	(5.93)	0.6L	(10)	nil	-	nil	nil	nil
Multimedia φ	Yr to Dec 31	2.37	(1.57)	0.123	(0.094L)	0.49	(0.43L)	-	-	-	-	-
Northern Leisure	6 mths to Feb 25	13.4	(11.6)	2.53	(1.63)	4.5†	(3.7)	2	June 3	2	-	4
Pearson	Yr to Dec 31	1,830	(1,550)	365.1♥	(297.8♥)	47.1	(40.4)	10.175	June 7	9.25	16.5	15
Polypipe	6 mths to Dec 31	94.2	(84.7)	9.76	(9.31)	4.06	(3.98)	0.83	Apr 23	0.81	-	2.66
Premier Oil	Yr to Dec 31	85.1	(48.9)	25.1‡‡	(9‡‡)	2.63†	(1.64)	0.5	May 16	nil	0.5	nil
Royal Doulton	Yr to Dec 31	242.8	(227.5)	15.2	(12.6)	20.4	(18.4)	6.5	June 7	5.75	8.5	7.5
Select Appointments §	Yr to Dec 31	226.7	(89.8)	12.5	(2.61)	1.33†	(0.55)	0.25	June 5	-	0.25	-
SkyePharma φ	6 mths to Jan 31	2.07	(2.92)	1.52L♠	(0.421L♥)	0.19L	(0.06L)	-	-	-	-	-
Takare	Yr to Dec 31	110.3	(90)	21.8	(21.1)	14.3	(14.5)	1.7	Apr 2	1.5	2.6	2.3
TT	Yr to Dec 31	479.5	(397.3)	44.9	(35.6)	19.5	(16.2)	4.08	May 23	3.3	6.52	5.43*
VCI	*Yr to Dec 31*	*76.6*	*(60.1)*	*8.03*	*(5.77)*	*17.3†*	*(16.2)*	*4.9*	*May 31*	*4.2*	*7.1*	*4.2*
Vitec	Yr to Dec 31	131.8	(97)	30.7	(20.1)	52.3	(40.2)	7.7	July 1	6.6	10.5	9
Wilson Bowden	Yr to Dec 31	228.2	(241.7)	29.6	(37.1)	21.1	(27.1)	7.2	May 28	7.2	10.05	10.05

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Alliance	*Yr to Jan 31 ★*	*£24.28*	*(£18.85)*	*31*	*(28.4)*	*61.49*	*(56.4)*	*37*	*Apr 26*	*35*	*53*	*50*
Gartmore Smaller	6 mths to Feb 29 ★	299.4	(269.7Ψ)	0.364	(0.38)	2.6	(2.7)	1.5	June 3	1.5	-	5.75

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ♦Special of 42p also proposed. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. ‡‡Post-tax. □Total income. φAim stock. §USM stock. *Equivalent after allowing for scrip issue. ★Comparatives restated. ΨAt August 31.

Bunzl strides ahead to £106.2m

By Patrick Harverson

Volatile raw material and product prices failed to knock Bunzl off its stride last year, with the paper and plastics group reporting a sharp rise in annual pre-tax profits from £79.8m to £106.2m ($162m).

Sales from continuing operations climbed to £1.76bn (£1.51bn). Mr Anthony Habgood, chief executive, said trading had started well this year, despite rapid and unpredictable changes in prices of pulp and plastic resins.

Among the most promising developments was the $100m (£65.3m) in orders won by its US distribution business.

Bunzl also announced two small acquisitions in the plastic and disposables businesses worth £3.3m. Mr Habgood said further acquisitions would only be "at the right price and in the right place".

Paper and plastic disposables had another strong year, with profits rising to £68.3m ($54.1m).

Fine paper profits rose 55 per cent to £20.6m as the high proportion of "just-in-time" deliveries at the UK operation helped cushion against the negative impact of destocking by customers reacting to falling paper prices.

Profits from plastic products rose to £14.1m (£12m). Cigarette filters saw profits rise 3 per cent to £15m amid stronger competition in Italy, adverse exchange rates in Austria and higher raw material costs in the US and UK.

The conversion of £35m of unsecured loan stock and improved cash generation reduced debt by £4m to £31m.

Astec up 34% on new products and lower costs

By Christopher Price

Astec (BSR), the Hong Kong-based power conversion and electronic components group, reported a 34 per cent rise in 1995 pre-tax profits from £21m to £28.1m, helped by lower costs and new products.

Turnover at the company, in which Emerson, the US power group holds a 49 per cent stake, rose by nearly a fifth to £371.8m. Sales from new products introduced in the previous three years rose from 39.5 per cent to 44.5 per cent.

Operating profits in the power conversion division rose 30 per cent to £22.8m on sales up 17 per cent at £292.6m. Mr David Farr, chief executive, said the cost-base had been reduced through re-locating the division from Hong Kong to the Philippines, where a new factory contributed its first full year.

The company is continuing its strategy of expanding in south-east Asian. This reflected the strong growth in the demand from the region for the group's products. As part of this plan, a factory for electronic components had recently opened in China.

DIGEST

'Everyday' boost for Royal Doulton

Strong sales of its 'Everyday' fine china helped Royal Doulton, which has been based in England's Potteries region for 200 years, lift profits by 21 per cent. Mr Stuart Lyons, chief executive, described the result as "very positive – we have shown investors that we are capable of doing what we said we would do."

Formal dinnerware sales were slightly lower, but still accounted for 30 per cent of the total. Sales of Winnie the Pooh figures hit £3.5m ($5.4m) from a standing start, not far below the Brambly Hedge and Bunnykins ranges, and the group has added the US distribution licence for this year.

Next month china decorating will start at the new $20m manufacturing facility in Indonesia, which will next year be fully active producing mid-price fine china for North America and the Asia Pacific region. Start-up costs this year will be £1.5m, with break-even in 1998.

The group has also acquired Holland Studio Craft, which makes cold cast resin collectibles, for a total of about £1.85m.

David Blackwell

Sachtler buoys Vitec

Acquisitions in the broadcast and photographic markets, together with strong underlying growth, helped Vitec Group to a 53 per cent rise in 1995 pre-tax profits, up from £20.1m to £30.7m ($46.97). This included a significant contribution from Sachtler – formerly its main competitor in the camera supports, lighting and suspension equipment market – which it bought for £70.6m a year ago.

The broadcast equipment division contributed 42 per cent of group profits, with margins improving from 19 per cent to 23 per cent. Divisional operating profits more than doubled to £13.7m, driven by strong demand, particularly in the US and east Asia. Surveillance profits rose 51 per cent, benefitting from a cost-reduction programme introduced in 1994.

Christopher Price

Brunner Mond plans listing

Brunner Mond, one of the oldest companies in the UK chemicals industry, is hoping to return to the stock market later this year with a value of up to £200m ($306m). The flotation comes five years after Brunner Mond was bought out from ICI and 115 years after it was founded by Ludwig Mond, a German émigré.

The Cheshire-based company, the UK's largest manufacturer of soda ash, had initially planned to float in 1994. But the issue was postponed after profits were hit by a price war started by Solvay, the European market leader.

David Wighton

APV sells antipodean divisions

APV, the food and drink production equipment maker, has sold its catering equipment and retail bakery businesses in Australia and New Zealand for A$31.8m cash. The buyer in each country is Moffat, owned jointly by Kenmare Capital, AMP Investments and the managements. The final consideration is subject to adjustment, but the group expects profit on the disposal to be about £7.7m. For the year to December 31, the businesses made a profit of £3m on sales of £22.4m.

Mid-States skids to £689,000

Fierce competition leading to reduced margins in an industry where sales were down overall led Mid-States, which distributes automotive parts in the US, to announce a slide in full-year pre-tax profits from £5.93m to £689,000 ($1,05m). The figure was struck from increased turnover of £80.5m (£77.6m) for the year to December 31; excluding the effects of acquisitions sales declined by 2 per cent.

There was a restructuring charge of £2.03m (nil) and exceptionals totalling £940,000 for losses on closed operations.

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COMPANIES AND FINANCE: UK

Elan pays $600m for Athena Neurosciences

By Daniel Green

Elan, the Irish pharmaceuticals company, is to pay more than $600m in shares for Athena Neurosciences, a Californian biotechnology company. Both companies called the deal a merger and Mr John Groom, Athena's chief executive, will take up a new post at Elan as chief operating officer. Athena will become a subsidiary of Elan.

Mr Thomas Lynch, Elan's finance director, said: "This is arguably the most significant step in our corporate history." The new company will have a market capitalisation of between $2.7bn and $2.8bn.

Athena shareholders will get 0.2956 Elan American depositary shares for each Athena share. Based on the March 15 closing price of Elan, the agreement values Athena at $18.25 a share, or $640m, said Mr Lynch.

Athena shares had closed at $15¼ on Friday, he said. Yesterday they were trading at $17⅛ with Elan closing unchanged at I£40¼.

Mr Donal Geaney, chief executive, said Athena brought a sales force whose value had been "under-appreciated" by investors, as well as products to treat neurological conditions such as Parkinson's disease.

He said the company had been looking for acquisitions but "we've rarely found a potential partner that was complementary and had a similar corporate culture".

Elan and Athena have had an alliance for more than a year to develop new products and formulations in the area of neurology. Elan had taken a 1 per cent stake with warrants and options for a further 5 per cent.

Elan said the transaction should be completed by early summer, and would dilute its 1996 earnings but boost them from 1997.

The deal marks a diversification for Elan from its core area of developing improved versions of existing drugs. It is best known for developing the slow-release version of Cardizem, a high blood pressure drug made by Hoechst Marion Roussel.

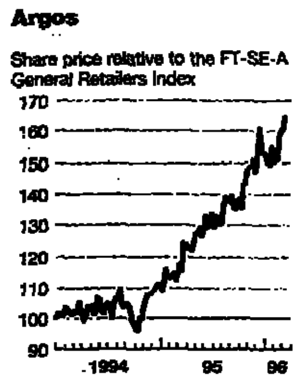
LEX COMMENT

Argos

Argos's decision to give £127m back to shareholders in the form of a special dividend was the right one, given that the company had failed to find a suitable acquisition. Argos has been increasing its average cash balance by close to £40m annually in the last few years, so the management's claim that it still has plenty of fire-power to make an acquisition is fully justified. Even after the pay-out, the balance is likely to beabout £130-£140m, assuming that it continues to generate cash at a similar rate. The worry is that Argos's luck in finding something suitable to buy will not improve, and earnings growth will plateau.

Argos

Share price relative to the FT-SE-A General Retailers Index



Source: FT Extel

True, the company still has a healthy stores opening programme, and like-for-like sales growth remains robust. In fact, it is in a better position than many UK retailers. It reckons it still has scope to open a further 200 stores on top of the nearly 370 it has already and is trialling new formats. But then that is already priced into its shares. To justify its 50 per cent premium to the market – and its smaller but still substantial premium to the sector – it cannot afford to pause for breath.

The company's consideration of an alternative strategy of organic expansion overseas suggests that the management is all too aware that it is heading for a brick wall sooner or later. Given Argos's conservative approach, there is every reason to hope that it will not come unstuck as so many British retailers have in the past.

Equally, though, there is no hope of foreign markets kicking in with rapid returns if the rate of UK profits growth starts to tail off.

Argos pledges £127m pay-out

By Peggy Hollinger

Argos, the catalogue retailer, has pledged £127m ($194m) of its £231m cash pile to shareholders through a special pay-out as it announced a 24 per cent jump in pre-tax profits.

Mr Michael Smith, chief executive, said shareholders on the register on April 15 would receive 42p a share, in addition to the ordinary dividend.

The bonanza is not expected to hinder Argos's ambitions to expand in new retailing areas. Mr Smith said Argos retained the fire power necessary for any future acquisitions.

Argos, which has been tipped as a potential bidder for H. Samuel, the jewellery chain owned by Signet, was examining UK purchases in core product areas which fell "broadly in the range of what we have retained", Mr Smith said.

BAT confident over US anti-smoking law suits

By Roderick Oram

BAT Industries told analysts yesterday that the proposed settlement of US anti-smoking cases by Liggett Group "is unlikely to ever become effective."

Thus the legal deals outlined last week by Liggett, a small cigarette maker whose majority owner is trying to break up RJR Nabisco, the number two manufacturer, were unlikely to have any impact on the industry, it added.

BAT, the third largest cigarette maker in the US, said it would continue "to defend all law suits aggressively." It also believed that the tide of court action was running in favour of the industry.

Moreover, the proposals by Liggett were aimed at winning the backing of RJR Nabisco's shareholders for the spin-off of the Nabisco foods business from RJ Reynolds, the tobacco company, BAT said. If Brooke Group, which owns 57 per cent of Liggett, could convince RJR Nabisco shareholders that it had put a cap on all future potential damage payments to smokers, the demerger stood more chance of approval.

The crucial date was the RJR Nabsico shareholders' meeting on April 17. If Brooke Group lost the vote on that day, its proposed settlements would become unenforcible, one analyst said. "It was a low keyed presentation by BAT to demonstrate that nothing had changed" on the US litigation front, he added.

Siebe may have to increase its £450m offer for Unitech

By Tim Burt and Christopher Price

Shares in Unitech yesterday rose 173p to 688p on expectations that Siebe, the industrial controls manufacturer, will have to increase its friendly £450m ($688m) takeover offer to secure control of the electronic controls group.

Although Siebe has already acquired a 25 per cent stake in Unitech at 590p a share, Unitech hinted that would not be enough to win board support for an agreed deal.

"We have yet to discuss the level at which we would accept their offer," said Mr Peter Curry, Unitech chairman.

Senior officials at Morgan Stanley, advising Siebe, are due to meet Unitech's advisers at Kleinwort Benson today in a preliminary attempt to hammer out a deal.

Mr Barrie Stephens, Siebe chairman, said initial talks would centre on organisational issues, mainly involving the due diligence process. "Until we get a profits forecast from Unitech we haven't anything on which to base a sensible valuation."

Siebe, which is expected to make a paper offer for Unitech of about 650p a share with a cash alternative, raised the possibility that Mr Curry could be offered a board position if its bid for Unitech was agreed.

Mr Stephens said the company was not interested in a hostile deal, adding that it unlikely to proceed if the takeover threatened to dilute its earnings per share. Even so, Siebe shares fell 18p to 826p.

Siebe has secured an irrevocable undertaking from Electrowatt, the Swiss electronic group, to buy its 25 per cent stake at 590p with an option over a further 4.1 per cent at 600p. Analysts expressed surprise that Electrowatt had sold at that price, especially given the subsequent jump in shares.

Electrowatt is also seeking a buyer for its 40 per cent stake in Eurodis Electron, the electronics component distributor. Two weeks ago, the Swiss group said it was in talks with several interested parties regarding the Eurodis stake, but has not yet found a buyer.

LAW

Increase in share capital unlawful

EUROPEAN COURT

Unilateral measures taken Greece compulsorily increasing the share capital of a bank without the approval of a general meeting of the existing shareholders thereby denying them the right to participate in the consequent capital increase, infringed European company laws on the protection of *shareholders, the European* Court of Justice ruled last week.

The ruling was given in the context of claims by the original shareholders in the Bank of Central Greece who had challenged decrees ordering the increase in capital made in 1986 by the governor of the National Bank of Greece and a provisional commissioner.

The decrees were later confirmed by laws under which the capital of the Bank of Central Greece *was compulsorily* increased from Dr670m to Dr1.7bn.

Although a notice inviting people to subscribe for the new shares was published in several Greek daily newspapers, the registered shareholders were not officially informed in writing of the offer.

When the offer was undersubscribed by the existing registered shareholders, the new shares were allocated to various third parties, but principally to a state-owned entity which thereby acquired a controlling interest of some 70 per cent of the total capital of the Bank of Central Greece.

The original shareholders also challenged the legality of *further capital increases voted* by the shareholders in 1987, 1989 and 1990 on the ground that the votes of the new shareholders were invalid.

The Greek court referred the case to Luxembourg for a preliminary ruling on the applicability of the 1977 European second company law directive to their case.

The European court first rejected arguments advanced by the Greek government and the National Bank of Greece that the second company law directive did not apply to banks. The court said that, on the contrary, it was clear from the terms of the directive that it applied to all limited companies and subject only to specifically identified exceptions which did not apply in the present case.

The Greek government, supported by the Portuguese government, also argued that the right of European Union member states to take measures to *increase compulsorily the capital* of a bank were justified by the public interest in the protection of depositors, the duties *of member states to supervise* the activities of financial institutions and in the interests of the national economy.

In rejecting these arguments the court pointed out that there was no reason why those objectives could not be achieved while respecting the rights of existing shareholders as guaranteed by the second company law directive, namely to decide for themselves on whether or not the share capital of the company should be *increased, and to subscribe* proportionally to any increase.

Moreover, the court said, the failure, contrary to the requirements of the second company law directive, to give written notification to the existing shareholders of the option to subscribe to the new shares was a substantive breach of their rights, notwithstanding *publication of the offer.*

Finally, the court stressed that shareholders' rights could not be circumvented by national rules, which had been invoked in the national court, and which prevented the exercise of legal rights in bad faith or contrary to the purpose of the law in issue.

The exercise by minority *shareholders of their rights* under European company law directives could therefore not be prevented by national rules of that type, merely on the ground that they might have prevented the Greek government from taking measures which would be beneficial to the financial health of the company concerned.

Case C-441/93; Panagis Pafitis and others v Bank of Central Greece and others, ECJ FC. March 12 1996.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Carlsberg's new managerial brew

Flemming Lindelov, 47, is to take over as chief executive of Denmark's Carlsberg Brewery group from next January. He succeeds Poul Svanholm, who has held the position since 1972.

Lindelov made his career in Co-op Danmark, the co-operative wholesale and retail business, where he became a member of the executive board before becoming chief executive of Tulip International, the flagship company in the production of processed pigmeat products, in 1990. Michael Iuul 53, will remain as executive director in charge of international development, a job he has held since 1985, with Walther Paulsen, 46, likewise staying on in charge of finance, personnel and administration.

Svanholm has dominated Carlsberg for more than two decades. One of his first tasks was to preside over the merger of Carlsberg with its great domestic rival, Tuborg, although common ownership has not prevented the breweries from continuing to compete. He has grown Carlsberg into one of the top three Danish industrial groups in terms of turnover and has presided over a major international expansion of the brewery, which now sells six times as much beer abroad as it does in Denmark.

Svanholm is stepping down because he will have reached the company's normal retirement age when he celebrates his 63rd birthday in June. However, he will not be short of work. Among other things, he is chairman of the supervisory board of Den Danske Bank, Denmark's biggest bank, where he can remain until he reaches 70. *Hilary Barnes*

BONY custody chief

Bank of New York has appointed Maureen Bluedorn (left) as London-based executive vice president for its worldwide global custody business. Bluedorn was a managing *director in the global custody* business of JP Morgan, which BONY acquired last year. She is the highest ranking executive to join BONY following the highly publicised merger, which makes the bank the world's second-largest global custodian.

Global custody – the safe keeping of securities and cash on behalf of investors – has been one of the fastest growing businesses for banks in recent years. However, fierce price competition and a growing need to invest in technological enhancements have led to a wave of consolidations.

JP Morgan's custody business was one of the most successful and the decision to sell it took its competitors by surprise. Though a BONY spokesman said that 'the great majority' of JP Morgan's custody clients had agreed to the acquisition, the physical conversion of the two banks' computer systems will take at least a year. Industry consultants believe that this conversion process is the greatest challenge for an acquirer because any disruption is likely to provoke swift client defections. *Norma Cohen*

Unilever portfolios

Unilever has announced changes in directors' responsibilities under the board reorganisation which takes effect on September 1.

The *seven-member executive* committee of the board will be co-chaired by Niall FitzGerald and Morris Tabaksblat, respectively chairmen on that date of the group's UK and Dutch arms. Other members are Lex Kemner, category director foods; Clive Butler, home and personal care; Iain Anderson, industrial, also responsible for strategy and technology; Hans Eggerstedt, financial director and Jan Peelen, personnel director.

Presidents have been named to four of the 14 new business groups. They are Roy Brown, food and beverages, Europe; Antony Burgmans, ice cream and frozen, Europe; RM Phillips, home and personal care, North America; and Okko Muller, who will handle Foods Europe in 1996 and will then commence handover to Brown. He will retire at Unilever's annual general meeting in May 1997.

Two other directors will retire at the same time: Ashok Ganguly, research and engineering director, and Christopher Jemmett, who will sit on the executive committee with responsibility for guiding the introduction of the new business groups.

Hard Rock faces music

Rank Organisation, the UK leisure industry conglomerate, has tuned in to the US music industry to find a new chief for its Hard Rock Cafe chain. Jim Berk, 35, who was responsible for the Grammy awards at the National Academy of Recording Arts and Sciences Foundation in California, has been appointed chief executive of Hard Rock Cafe International, based in Orlando, Florida.

Berk replaces Art Levitt who was poached by Walt Disney to head a new Disney division which will launch several new ventures ranging from sports restaurants to multi-use entertainment centres in the US and overseas. Levitt, 38, son of the US SEC chairman Arthur Levitt, had been brought in by Rank after the entrepreneurial Robert Earl, 43, went off to set up his Planet Hollywood chain. The Hard Rock brand could easily have withered on the Rank vine, but Levitt has reorganised it and turned it into one of the fastest growing parts of the Rank empire. Berk and can be expected to take the restaurant chain back to its musical roots.

Pigliucci's litmus test

Riccardo Pigliucci (left), who lost out in the contest for the top job at Perkin-Elmer, the US analytical instrument maker, has resurfaced in the UK as chief executive of Life Sciences International, the UK laboratory equipment maker.

Pigliucci, 49, resigned as Perkin-Elmer's *chief operating officer* last May after the group went outside for a new chief executive. He joined the group from Italy and had worked for Perkin-Elmer for 25 years. *Life Sciences* International, which has sales of £200m a year and employs 2,500 people, is less than half the size of Perkin-Elmer and has been rumoured as a likely bid target. *Motoko Rich*

ON THE MOVE

■ Eggert Voscherau and Helmut Beck will join the board of German chemicals company BASF on November 1; Beck will become personnel director on January 1 1997.

They replace Dietmar *Werner, who is retiring at the* end of December, and Dieter Stein, who will retire after BASF's annual shareholder meeting in 1997.

■ Peter Lynch, vice chairman of Fidelity Investments and former manager of Fidelity's Magellan Fund, resigns from the board of W R GRACE on May 10.

■ *Olivier Houssin,* executive vice-chairman of Alcatel Cable America, becomes head of the new telecoms division at ALCATEL CABLE. Jacques Leclercq, chairman of Alcatel Submarine becomes head of the new submarine telecommunications division and of the energy division.

Gilles Dupuy d'Angeac, *managing director of Alcatel* Cable, chairman of Alcatel Contracting and Alcatel USA Corp, will head the metallurgy and special activities divisions of Alcatel Cable.

■ PG Kakodkar has been appointed chairman of DISCOUNT AND FINANCE HOUSE OF INDIA, replacing SS Tarapore, who retains his role as deputy governor of the Reserve Bank of India. Kakodkar is also chairman of the State Bank of India.

■ Gaetano Galia has been named managing director of the state-controlled *AEROPORTI DI ROMA,* replacing Domenico Cempella, who took over as chief executive of Alitalia last month.

■ Stephen Juge, 42, rises to senior vice president and European legal counsel for THE WALT DISNEY COMPANY (EUROPE). Juge was most recently general *counsel of Disneyland Paris.* Before joining Disneyland Paris in 1987, he was with the law firm Coudert Freres in Paris.

■ CATHAY PACIFIC AIRWAYS has appointed CITIC Pacific director Zhuang Shoucang, and Peter Mak Shair, assistant to the managing director, *non-executive directors.* They will replace CITIC chairman Larry Yung and Henry Fan.

■ Yeo Eng Cheong, 47, and Neo Khay Pin, 49, have been promoted to be two of the three executive vice presidents in the commercial banking sector of THE UNITED OVERSEAS BANK. Terence Ong Sea Eng, 46, has been promoted to executive vice president in the international banking sector.

■ Jannie Mouton, former managing director of the South African broking firm Senekal Mouton & Kitshoff has joined *the board of ING BARINGS* SOUTHERN AFRICA as a non-executive director.

■ GTI, the 57 per cent owned US subsidiary of Telemetrix, has appointed Albert Martinez as chief executive officer. He was previously chief executive officer of Applied Micro Circuits.

■ Pierson Grieve has been *appointed a non-executive* director of DANKA BUSINESS SYSTEMS. He was chief executive officer of Ecolab Inc for 12 years prior to his retirement in 1995.

■ John Elliott has been appointed executive vice president and general manager of International Establishment Services at AMERICAN *EXPRESS, based in London.* He joins from First Data Corporation, where he was chairman and chief executive officer of Card Establishment Services.

■ Ajay Sondhi, formerly director and country head, India, for Salomon Brothers has been appointed group chief executive of Barclays Bank and BZW activities in India, with effect from April 2 1996. Peter Harlock continues as chief executive of Barclays Bank which undertakes the group's commercial banking treasury and project finance *activities. Jeremy Seddon* will remain as chairman of Barclays/BZW Group in India.

■ Patrick de Royer becomes director of SIEMENS SA's domestic telecoms division.

■ Wolfram Goebel has been appointed managing director at German publisher VERLAGSGRUPPE ULLSTEIN.

■ *Rodolfo Bryce, 49, president* of Schering-Plough International, succeeds Donald Conklin, 59, as president of SCHERING-PLOUGH HEALTHCARE PRODUCTS on April 1. Conklin will stay on as chairman of the business unit until his planned retirement at the end of the year. Richard Zahn, 44, becomes president of *Schering Laboratories.*

■ Stanley Myers, president and chief executive officer of Siltec Corp, is leaving at the end of August to join SEMI as president; he was with Siltec for 17 years, and before that with Monsanto for 18 years.

■ Gordon Waters has joined the UK's UNITED UTILITIES – the combined former North West Water and Norweb - from Tarmac as managing director of the international division.

■ Brian Poggi, 39, has been named chairman of POLAROID (UK) and UK-based vice-president for Polaroid's European *marketing* and sales operations.

■ John Molan, 49, joins McCORMICK, the seasonings company, as group vice president and managing director – Europe. He takes over from Hal Handley, who is retiring at the end of March.

■ Mohd Nadzmi Salleh is stepping down as managing *director of PROTON, the* Malaysian car maker.

■ Clement Kwok is joining Hong Kong's MASS TRANSIT RAILWAY Corp. as finance director on June 1. Currently a director and head of corporate finance at Schroders Asia in Hong Kong, Kwok succeeds Roger Moss, who is retiring.

■ Guy Vicinelli, 53, a 25-year veteran of JP Morgan, joins COUTTS, the international private banking subsidiary of National Westminster Bank, as senior vice president of Coutts & Co AG, New York, with a remit to develop the Coutts Americas region business in Europe, Asia and the Middle East.

■ Nick van der Linden has departed as a *managing* director with Rabo Effectenbank, the equity trading arm of RABOBANK, following disagreements over strategy, the Dutch cooperative said.

■ *Claire* Mialaret and Philippe Richard are appointed deputy managing directors at HAVAS MEDIA COMMUNICATION.

■ *Italian* media group FININVEST has appointed to the board Salvatore Sciascia, its director in charge of tax affairs.

■ Roger Vines has been elected a vice president of the *ALUMINIUM COMPANY of* AMERICA.

■ Anshuman Misra has been appointed general manager in India for BBC WORLD.

International appointments

Please fax announcements of new appointments and retirements to +44 171 873 3926, marked for International People. Set fax to 'fine'.

COMMODITIES AND AGRICULTURE

Cuba 'on target' for 4.5m-tonne sugar crop

By Pascal Fletcher in Havana

Cuban government officials say sugar production from Cuba's 1995-96 cane harvest has already reached 2.5m tonnes and they are openly confident that the island will achieve this season's official harvest target of 4.5m tonnes.

"I'm sure of it. We're going to make it," Cuba's Sugar Minister, Mr Nelson Torres, said. "We've already reached 2.5m tonnes," he added.

He was speaking at the Manuel Isla sugar mill in Havana province, one of three of the island's 156 sugar mills that have completed their production plans more than a month before the scheduled end of the 1995-96 harvest.

Mr Torres' statement was an unusually categoric expression of confidence in this season's sugar harvest. Cuban officials are normally shy of making output estimates, especially before the harvest has ended.

Government planners have linked the island's overall prospects for economic recovery this year directly to the achievement of the 4.5m tonne sugar target, which is still far below pre-1990 levels of between 7m and 8m tonnes.

Last season's disastrous harvest of 3.3m tonnes, the lowest in more than 50 years, was a major black spot amid otherwise encouraging signs that Cuba might be slowly emerging from the severe recession caused by the collapse of its trade and aid ties with the former Soviet Union.

Cuba needs to increase its sugar production by at least 1m tonnes to meet existing heavy supply commitments and pay back more than $100m in credits loaned by foreign banks and trade houses to finance essential inputs for the harvest. Its ability to obtain future credits depends on its successful fulfilment of the existing financing contracts.

Mr Torres said that the heavy rains that swept over Cuba a week ago, temporarily disrupting deliveries 113 mills, would set back the harvest schedule by a few days but would not threaten the sugar output target.

"We've already recovered," he said, adding that the national production level was back to where it had been before the rains, coming close to 50,000 tonnes a day.

Foreign analysts have so far remained cautious in their estimates for the 1995-96 Cuban crop, predicting ouput of closer to 4m tonnes than 4.5m. But most acknowledge that, thanks to improved inputs of fuel and fertilisers paid for by the foreign credits, Cuba has had more cane available to harvest this year.

Some analysts say the deteriorated state of Cuba's sugar mills could be a limiting factor but Cuban officials claim that indicators of milling efficiency and sugar yield levels have improved greatly this season.

Honey market hits a sticky patch

Importers have borne the brunt of recent price rises, writes **Alastair Guild**

The world's honey markets are delicately balanced. Continuing uncertainty over production and supply have pushed raw honey prices up by over 50 per cent in the last 12 months alone. Total world demand, by contrast, has changed little over the last 20 years.

Sales have also remained largely unaffected by the latest surge in prices, UK retail sales having fallen a mere 1 per cent last year. But honey packers and importers have so far borne the brunt of the price increases. Raw honey prices are expected to continue to increase over the next few months. Nestlé, the UK market leader is confident that honey in general, and its brand Gales in particular, will hold their own.

The former Soviet Union, the world's largest producer of honey, has until now been a minor player in world markets, exporting a mere 6,000 tonnes out of a total production of 231,000. This is unlikely to change in the near future, say European honey experts, though some samples of good quality Siberian honey have recently been sent to Europe for testing. There is continuing unease about levels of pollution in parts of the FSU, and uncertainty about provenance and continuity of supply.

China is the world's largest exporter and second largest producer, last year shipping 53 per cent of its total production of 150,000 tonnes. Chinese production is sold mostly for blending, into multifloral table honey, honey used for spreading by the domestic consumer. Multifloral table honeys account for 80 per cent of UK honey sales, the remaining 20 per cent being monofloral "speciality" table honeys.

When China offloaded large stocks on to the world market in the early 1990s, the cif price paid by the European trade for a tonne of Chinese honey fell to $700. The prices of honey from Argentina, Australia and Mexico, the other major bulk exporters, followed Chinese prices downwards.

The price of Chinese honey has now bounced to $1,200, drawing the others up with it.

Following the dramatic price fall the Chinese government introduced a system of export licences in an attempt to bring some order to overseas sales. But poor harvests, in China and elsewhere, have played perhaps the most significant part in pulling prices up to present levels.

The 1995 Mexican crop was more than 50 per cent down. Due partly to poor climatic conditions and partly to the demoralising effect on beekeepers of previous low prices, a world-wide phenomenon. Two important honey producing provinces had over 50 per cent of their beehives destroyed by hurricanes. The prices of other Central American honeys have risen in consequence; those from Guatemala and El Salvador by over 25 per cent since September.

Drought is having a lingering affect on harvests in both Australia and Argentina, while the impact of unusually heavy rains in China's northern provinces are expected to be felt at least until the new crop is harvested in the early summer.

There are at present 7.5m domestic bee colonies in China, with an average annual yield of 25kg. Some Chinese analysts have suggested the country could support as many as 25m hives on the strength of nectar availability.

Chinese beekeepers are mostly small-scale, owning, on average, less than 50 hives. They generally migrate from south to north as the season progresses, often living in a tent next to the apiary and carrying their equipment with them. The government employs some 10,000 people to support production. But beekeepers face continuing cost increases, particularly for transport and treating bee diseases.

"The low prices at the beginning of the 1990s put many Chinese off bee-keeping," says Mr Stephen Beaty, director, Fuerst Day Lawson Verney, the largest shipper of honey into the UK, and with a joint venture factory in north-east China. "We wait with interest to see the impact of higher prices on bee-keeper numbers."

China has been exploring alternative markets, with mixed success. The US is a potentially promising market for Chinese honey. It has helped to compensate for a drop in sales of Chinese honey to Europe, and to Japan, the world's second largest importer, where there has been a decline in the popularity of honey beverages.

But China-US trade, which at one time reached 30,000 tonnes has dropped off to 20,000, curtailed by successful anti-dumping action and the imposition of significant import quotas.

The diversion of Chinese production to satisfy US demand – at high prices – has, nevertheless, been partly responsible for the shortfall in supplies to Europe, and consequently the price rises.

Another subject of concern to China and traders alike is the possible repercussions of an increase in domestic demand. Per capita consumption is now 100 grammes, but distribution within China is poor. An increase in consumption to 160 grammes, at present levels of production, would leave no honey for export. Were the Chinese, with increasing prosperity, to consume on average 250 grammes, the same as the Brazilians or Argentines, China would itself become the world's most important market.

At present Germany enjoys that distinction. Of the 90,000 tonnes consumed in Germany, 70,000 are imported – approximately half of total European Union imports – though under 10,000 tonnes of that is from China.

Germans have traditionally used significant amounts of honey for cooking, as well as spreading. Germany, which buys most of its honey from Mexico and Argentina, is also a significant market for "speciality", monoflora honeys. British-produced heather honey is particularly sought after, but New Zealand manuka honey, with scientifically proven medicinal, properties, fetches the highest premium in Europe.

Total UK production is only 4,000 tonnes, compared with over 30,000 in France. Spain has over 1m commercial hives, twice the number of France, and more than 4,000 commercial beekeepers.

European beekeepers are concerned that they will be unable to compete when tariffs on imports from third countries are lowered, then removed, further jeopardising an industry already badly affected by the spread of disease, says Mr Ged Marshall, a director of British Honey Producers and vice chairman of Copa, the organisation of EU farming unions.

"The trade's requirements remain the same," says Stephen Beaty, who quite regularly receives samples from producers in India and Africa. "They are potentially quite significant exporters, but have yet to meet our criteria, on quality, price or both."

EU beekeepers are concerned that they will be unable to compete when tariffs on third country imports are lowered.

N Sea oil prices up again

By David Lascelles

Oil prices moved up again yesterday, with North Sea crude topping the $20 a barrel mark for the first time this year. The price of dated Brent crude closed at $20.43½ up $1.13. Brent for May delivery was at $18.79, up 78 cents.

The major factor in the market was the stickiness of negotiations in New York over the possible resumption of deliveries of oil from Iraq for humanitarian reasons. Talks were continuing at the UN last night.

Destocking gives the nickel market a 'breathing space'

By Kenneth Gooding, Mining Correspondent

The nickel market had gained a "breathing space" because of the present spate of destocking by consumers of stainless steel – which accounts for two thirds of demand for nickel. But it would soon become "tight and excited", warned Mr Ivor Kirman, marketing director of Inco Europe, part of the western world's biggest nickel group, yesterday.

He said this excitement could be expected once stainless steel production was clearly back on a growth track again, possibly in the second half of this year or in 1997.

Mr Kirman pointed out that, even though London Metal Exchange stocks had fallen steadily from a peak of 150,000 tonnes in 1994 to below 40,000 tonnes, Inco believed that total global nickel stocks had been rising in recent months. Some of this stock was held by producers but be also suspected that sizeable amounts of nickel were in the hands of "disappointed players who bought nickel in anticipation of stronger demand."

Mr Kirman suggested that the metal markets had changed now that investment funds were taking an interest. In the main, this had been a positive development. He said, for example, that every part of the physical nickel business had been helped by the intervention of the funds late in 1993 and early in 1994. Without that intervention, nickel prices would have remained depressed for much longer and the industry would have been destabilised when strong demand emerged at the end of 1994.

The funds' involvement in metals markets also implied that "the floor price for metals is no longer the price at which the highest-cost producer stops producing but the price at which the independent financier sees good value and is prepared to buy."

The "downside" to the funds involvement, said Mr Kirman, was that they created more short term volatility and also their actions were difficult to predict.

Companies dropped from gold mine index

Three South African companies have lost their places in the Financial Times Gold Mines Index because each of their annual production levels have fallen below the required 300,000 troy ounces.

The companies affected are Buffelsfontein, Kinross and Winkelhaak.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1602-03	1634-34.5
Previous	1610.5-1.5	1640-1
High/low	1600/1598	1641/1628
AM Official	1599-1600	1631.5-32
Kerb close		1632-34
Open int.	216,232	
Total daily turnover	126,371	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1350-60	1392-97
Previous	1367-72	1404-5
High/low	1357	1405/1392
AM Official	1355-57	1395-97
Kerb close		1392-97
Open int.	5,190	
Total daily turnover	2,157	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	883-5	808-9
Previous	850.5-2.5	803-4
High/low	885	814/802
AM Official	884-5	807-9
Kerb close		812-13
Open int.	41,264	
Total daily turnover	16,497	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	8015-25	8120-30
Previous	8010-15	8100-10
High/low		8170/8100
AM Official	8040-50	8160-70
Kerb close		8120-25
Open int.	41,241	
Total daily turnover	9,549	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6160-70	6195-200
Previous	6120-40	6150-70
High/low	6150/6148	6240/6180
AM Official	6148-50	6170-75
Kerb close		6210-20
Open int.	16,455	
Total daily turnover	4,812	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1072-3	1095-6
Previous	1081.5-2.5	1102-3
High/low	1078	1105/1096
AM Official	1077-78	1100-0.5
Kerb close		1097-98
Open int.	71,430	
Total daily turnover	16,220	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2559-61	2544-45
Previous	2556-8	2540.5-1.5
High/low		2547/2540
AM Official	2567-68	2547-48
Kerb close		2545-46
Open int.	181,971	
Total daily turnover	83,242	

■ LME AM Official £/$ rate: 1.5296

LME Closing £/$ rate: 1.5307

Spot: 1.5305 3 mths: 1.5281 6 mths: 1.5258 9 mths: 1.5238

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	118.60	+0.15	119.40	118.40	837	3,059
Apr	118.85	+1.15	118.90	117.70	240	2,363
May	118.05	+1.10	118.10	116.80	2,632	19,804
Jun	116.45	+1.10	116.30	116.30	5	865
Jul	115.25	+0.80	115.50	114.40	285	4,882
Sep	113.30	+0.80	113.30	112.70	62	2,856
Total					4,487	42,466

PRECIOUS METALS

■ LONDON BULLION MARKET

(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	394.60-395.00		
Opening	396.00-396.40		
Morning fix	395.45	258.58	469.40
Afternoon fix	394.00	257.85	468.07
Day's High	396.00-396.40		
Day's Low	393.80-394.20		
Previous close	395.80-396.00		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month	4.32	6 months	3.96
2 months	4.15	12 months	3.81
3 months	4.03		

Silver Fix	p/troy oz.	US cts equiv.
Spot	362.75	555.00
3 months	366.75	560.25
6 months	371.05	566.05
1 year	380.15	578.35

Gold Coins	$ price	£ equiv.
Krugerrand	394-397	257-259
Maple Leaf	405.10-407.65	-
New Sovereign	92-95	60-62

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	395.7	-0.5	-	-	4	-
Apr	396.3	-0.8	398.0	394.6	18,023	75,620
Jun	399.3	-0.8	399.9	397.5	3,968	50,220
Aug	401.9	-0.6	402.2	400.4	1,667	12,872
Oct	404.5	-0.6	404.2	403.8	1,906	5,134
Dec	407.1	-0.6	407.4	406.0	1,799	15,229
Total					28,465	204,499

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	413.1	-0.9	413.4	411.2	2,153	11,624
Jul	416.2	-0.8	416.5	415.0	587	8,358
Oct	418.7	-0.8	419.0	419.0	154	1,935
Jan	421.5	-0.8	422.0	422.0	1	762
Apr	434.2	-0.8	424.0	424.0	325	360
Total					3,219	23,038

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	139.25	-0.75	-	-	1	43
Jun	139.75	-0.75	139.75	139.25	312	6,321
Sep	140.75	-0.75	-	-	35	309
Dec	141.75	-0.75	-	-	4	73
Total					313	6,746

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	553.4	-4.2	552.5	552.5	244	322
May	557.0	-4.2	562.0	553.5	11,006	53,662
Jul	561.3	-4.5	563.0	558.0	1,021	14,051
Sep	566.0	-4.5	567.0	563.5	62	11,027
Dec	573.3	-4.5	576.0	569.0	187	7,470
Mar	580.8	-4.5	-	-	11	3,163
Total					12,536	92,966

ENERGY

■ CRUDE OIL NYMEX (42,000 US galls. $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	22.96	+0.97	23.14	21.77	47,513	43,688
May	20.73	+0.55	20.84	19.96	49,459	98,482
Jun	19.57	+0.44	19.65	19.08	23,788	55,463
Jul	18.85	+0.27	18.94	18.64	10,660	44,629
Aug	18.44	+0.20	18.50	18.32	1,505	25,013
Sep	18.13	+0.12	18.25	18.07	1,815	18,224
Total					144,892	434,986

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
May	18.82	+0.64	18.94	18.20	15,844	73,458
Jun	17.94	+0.47	18.05	17.51	7,008	29,718
Jul	17.37	+0.33	17.42	17.01	2,812	37,286
Aug	17.05	+0.23	17.08	16.78	939	10,981
Sep	16.87	+0.20	16.90	16.66	285	12,026
Oct	16.72	+0.16	16.77	16.51	955	3,457
Total					28,397	189,048

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	60.45	+2.58	61.25	57.45	19,407	25,620
May	54.45	+1.68	55.10	52.80	7,860	17,711
Jun	51.55	+0.88	52.00	50.67	25	11,828
Jul	50.75	+0.63	51.05	50.10	968	8,742
Aug	50.85	+0.53	50.90	50.70	631	7,458
Sep	51.30	+0.38	51.60	51.10	118	2,868
Total					33,808	92,801

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	174.75	+7.75	175.50	169.50	10,980	20,284
May	168.25	+7.50	167.25	160.75	4,287	9,447
Jun	160.75	+5.50	161.50	157.25	1,997	9,157
Jul	158.25	+4.75	158.75	155.00	216	4,763
Aug	157.50	+4.00	157.00	154.75	213	4,072
Sep	158.75	+3.00	157.25	155.25	300	1,887
Total					18,343	57,341

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	2.495	+0.162	2.500	2.380	13,800	25,081
May	2.300	+0.085	2.305	2.240	7,822	26,302
Jun	2.115	+0.035	2.120	2.090	2,860	16,926
Jul	2.035	+0.025	2.040	2.010	1,493	13,743
Aug	2.000	+0.022	2.005	1.985	1,171	13,513
Sep	1.955	+0.007	1.980	1.945	1,704	10,461
Total					32,178	154,722

■ UNLEADED GASOLINE

NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Apr	63.75	+0.83	64.50	62.80	12,839	27,361
May	63.10	+1.15	63.60	61.90	9,529	24,402
Jun	61.20	+0.80	61.85	60.40	2,483	8,616
Jul	59.05	+0.80	59.55	58.75	1,035	7,044
Aug	57.50	+0.80	57.70	57.00	258	3,970
Sep	55.30	+0.45	55.35	54.85	292	1,124
Total					26,440	73,452

GRAINS AND OIL SEEDS

■ WHEAT LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	117.90	+1.00	117.50	117.25	30	73
May	119.85	+0.75	120.25	119.10	161	3,324
Jul	122.00	+1.00	122.10	121.55	114	701
Sep	110.10	+0.40	110.10	110.00	46	223
Nov	111.25	-	111.50	111.30	4	1,506
Jan	113.20	+0.45	113.25	113.00	22	392
Total					377	6,265

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	502.00	+5.00	503.00	497.00	2,060	1,844
May	473.75	+1.50	476.00	467.00	8,290	25,461
Jul	442.25	+1.25	444.00	437.50	15,025	43,891
Sep	446.50	+1.75	447.00	441.00	631	8,728
Dec	457.00	+0.75	458.00	452.50	1,002	8,382
Mar	458.00	-1.00	459.50	456.50	6	333
Total					28,749	87,078

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	393.50	+2.25	394.00	386.00	2,256	5,388
May	385.75	+2.5	388.00	380.00	51,036	196,343
Jul	375.00	+1.75	375.50	370.50	16,734	125,679
Sep	326.50	+1.25	327.00	322.75	2,366	37,266
Dec	314.25	+1	315.00	310.00	8,676	90,134
Mar	319.25	+1	320.00	315.00	188	7,777
Total					82,497	467,084

■ BARLEY LCE (£ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	108.90	+0.65	-	-	-	253
May	109.65	+0.35	109.75	109.75	4	463
Sep	106.20	+0.55	-	-	-	44
Nov	108.15	+0.05	108.00	108.00	4	527
Jan	109.60	-	-	-	-	93
Total					8	1,404

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	716.00	+2	718.00	710.50	1,971	1,381
May	726.25	+1.75	727.00	719.00	23,532	69,432
Jul	734.00	+2.25	735.00	727.50	7,959	51,367
Aug	734.75	+2.5	735.00	728.00	684	7,157
Sep	725.00	+1	727.50	721.00	349	3,846
Nov	724.50	+4	726.00	715.00	7,973	54,980
Total					42,365	183,993

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	24.30	+0.13	24.33	24.12	3,130	1,797
May	24.58	+0.06	24.65	24.36	14,798	34,512
Jul	24.93	-	25.02	24.82	5,162	26,023
Aug	25.11	-	25.15	25.00	504	8,659
Sep	25.28	-0.02	25.35	25.16	244	4,570
Oct	25.41	-0.01	25.45	25.30	226	2,834
Total					24,732	85,305

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	224.0	-0.4	224.0	221.5	2,733	1,889
May	228.4	-0.3	228.5	225.9	10,152	38,627
Jul	231.8	-0.1	231.9	228.0	3,029	24,821
Aug	232.2	-0.2	232.3	230.0	251	5,418
Sep	231.5	-0.2	221.5	229.5	63	3,410
Oct	230.0	+0.7	230.5	228.0	148	3,010
Total					17,559	86,227

■ POTATOES LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Apr	182.8	-7.7	189.0	159.5	160	767
May	169.0	-10.0	173.0	168.0	19	53
Jun	225.0	-	-	-	-	-
Nov	105.0	-	-	-	-	-
Mar	130.0	-	-	-	-	-
Apr	123.5	-5.3	125.0	125.0	3	83
Total					183	903

■ FREIGHT (BIFFEX) LCE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	1448	+18	1450	1442	38	826
Apr	1538	+38	1545	1516	228	1,295
May	1483	+33	1494	1466	205	527
Jul	1359	+24	1370	1359	37	1,863
Oct	1395	+25	1399	1395	41	635
Jan	1410	+20	1415	1400	10	52
Total					580	5,248

	Close	Prev
BFI	1378	1363

FUTURES DATA

All futures data supplied by CMS.

Tea

There was improved and more general demand this week reports the Tea Brokers Association. Landed: bright East Africans were fully firm to 5p dearer, while colour mediums also gained 2 to 5p. Plainer teas were firm. Offshore: met good competition at mainly dearer rates particularly colour sorts. Quotations: Best available: 145-161p/kg. Good: 130-145p/kg. Good medium: 120-130p/kg. Medium: 95-107p/kg. Low medium: 82-93p/kg. Tea for price nq. Highest price realised this week was 161p/kg for a kenya pf.1.

SOFTS

■ COCOA LCE (£/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	875	-3	880	860	12	41
May	895	+5	896	888	2,497	25,362
Jul	917	+5	919	914	1,271	16,611
Sep	937	+6	938	935	363	39,229
Dec	951	+4	954	949	595	18,775
Mar	970	+4	970	969	638	40,335
Total					5,376	153,297

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
May	1223	+6	1230	1221	3,742	36,942
Jul	1248	+7	1254	1246	1,089	21,803
Sep	1272	+8	1277	1272	170	12,281
Dec	1307	+9	1309	1303	241	13,605
Mar	1337	+7	-	-	220	7,651
May	1355	+8	1355	1355	7	4,523
Total					5,469	98,515

■ COCOA (ICCO) (SDR's/tonne)

Mar 15	Price	Prev. day
Daily	897.32	899.90

■ COFFEE LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	2155	+58	2163	2110	367	2,131
May	1944	+40	1955	1920	2,432	12,735
Jul	1874	+38	1885	1855	636	5,133
Sep	1848	+33	1860	1830	410	3,357
Nov	1823	+32	1828	1812	78	1,759
Jan	1795	+22	1803	1794	110	865
Total					4,133	26,231

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Mar	127.20	+2.45	127.50	125.50	211	494
May	120.85	+2.40	121.20	119.30	5,257	15,920
Jul	118.35	+2.10	119.50	118.10	828	5,073
Sep	118.45	+2.35	118.45	117.25	259	3,585
Dec	117.15	+2.40	117.50	116.25	42	1,633
Mar	116.95	+1.70	116.00	116.00	24	420
Total					6,597	27,234

■ COFFEE (ICO) (US cents/pound)

Mar 15	Price	Prev. day
Comp. daily	106.53	106.11
15 day average	104.23	104.34

■ No7 PREMIUM RAW SUGAR LCE (cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	11.80	-	-	-	-	-
Jul	11.80	-	-	-	-	-
Oct	11.90	-	-	-	-	-
Total					-	-

■ WHITE SUGAR LCE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
May	395.0	+6.0	395.5	388.2	912	13,520
Aug	370.7	+6.7	371.0	364.4	669	7,414
Oct	334.5	+6.0	335.0	329.3	329	5,002
Dec	323.7	+3.9	325.0	320.2	55	2,574
Mar	317.2	+4.1	317.0	315.0	3	745
May	312.1	+1.8	316.0	312.5	8	564
Total					1,976	29,819

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	12.41	+0.24	12.41	12.24	8,805	64,946
Jul	11.08	+0.12	11.08	10.98	3,081	39,075
Oct	10.69	+0.04	10.70	10.65	998	27,826
Mar	10.41	+0.05	10.42	10.36	289	14,799
May	10.32	+0.05	10.33	10.28	211	4,214
Jul	10.17	+0.05	10.19	10.15	85	1,780
Total					13,493	153,084

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	84.64	+0.35	84.90	84.40	3,595	21,030
Jul	85.43	+0.38	85.70	85.20	1,277	11,744
Oct	81.50	+0.05	81.60	81.50	230	2,530
Dec	79.73	+0.06	79.95	79.67	900	17,833
Mar	80.50	+0.02	80.80	80.65	93	1,865
May	81.10	+0.05	81.27	81.27	22	819
Total					6,128	57,839

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
May	134.25	-0.85	136.00	134.25	961	16,993
Jul	133.40	-0.30	134.85	133.30	256	4,013
Sep	130.50	-	131.50	130.45	98	2,111
Nov	127.25	-	128.00	127.25	77	881
Jan	125.50	+0.25	125.50	125.20	3	2,543
Mar	127.50	+0.25	-	-	5	167
Total					1,400	26,887

VOLUME DATA

Open interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME and CSCE are one day in arrears.

INDICES

■ REUTERS (Base: 18/9/31=100)

Mar 18	Mar 15	month ago	year ago
2138.5	2139.1	2148.0	2313.0

■ CRB Futures (Base: 1967=100)

Mar 15	Mar 14	month ago	year ago
248.27	247.90	250.15	235.33

■ GSCI Spot (Base: 1970=100)

Mar 15	Mar 14	month ago	year ago
198.50	197.12	194.04	175.56

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	65.250	-0.025	65.300	64.950	7,857	25,562
Jun	64.350	-0.150	64.575	64.150	4,987	28,680
Aug	63.200	-0.125	63.325	62.950	2,106	14,779
Oct	63.975	-	63.975	63.750	1,039	10,715
Dec	62.725	-0.025	62.800	62.600	759	6,056
Feb	62.675	+0.025	62.775	62.650	89	3,172
Total					16,895	90,186

■ LIVE HOGS CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Apr	49.975	+0.500	50.050	49.075	2,246	10,956
Jun	53.825	+0.350	53.900	53.125	3,029	14,425
Jul	51.400	+0.475	51.450	50.575	507	3,375
Aug	48.775	+0.375	48.850	48.200	353	4,444
Oct	45.250	+0.250	45.400	44.925	162	2,958
Dec	46.500	+0.200	46.650	46.150	55	1,616
Total					6,381	38,592

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett Price	Day's change	High	Low	Vol	Open int
Mar	68.550	+0.450	69.000	67.600	200	393
May	68.150	+0.250	68.800	67.200	2,469	6,541
Jul	65.350	+0.625	65.750	64.300	605	2,506
Aug	61.400	+0.525	62.100	60.800	188	738
Feb	61.175	-0.175	62.400	61.075	19	85
Mar	60.700	-	-	60.600	1	6
Total					757	10,271

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

	Calls		Puts	
■ ALUMINIUM (99.7%) LME	Jun	Sep	Jun	Sep
1500	136	-	4	-
1600	60	108	27	56
1700	17	61	83	106
■ COPPER (Grade A) LME	Jun	Sep	Jun	Sep
2400	159	135	16	60
2500	89	84	44	106
2600	42	49	96	168
■ COFFEE LCE	May	Jul	May	Jul
1850	136	153	42	129
1900	106	132	62	158
1950	80	113	86	189
■ COCOA LCE	May	Jul	May	Jul
875	30	63	10	21
900	16	48	21	31
925	8	36	38	44
■ BRENT CRUDE IPE	Apr	May	Apr	May
1850	84	60	-	107
1900	56	35	-	-
1950	-	-	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$17.00-7.06x	+0.47
Brent Blend (dated)	$20.40-0.47	+1.13
Brent Blend (May)	$18.78-8.80	+0.78
W.T.I.	$20.69-0.70x	+0.935

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$200-202	+6.5
Gas Oil	$186-188	+1
Heavy Fuel Oil	$107-109	+2
Naphtha	$172-173	
Jet fuel	$216-218	+5
Diesel	$186-188	+1

Petroleum Argus. Tel. London (0171) 359 8792

■ OTHER

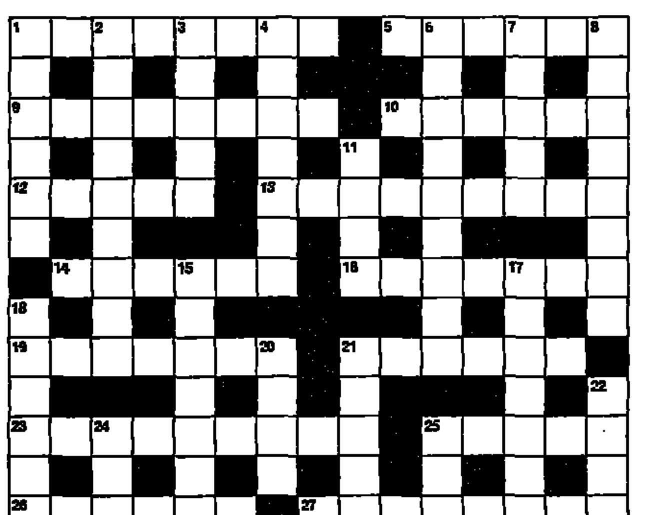
Gold (per troy oz)♣	$394.80	-1.00
Silver (per troy oz)♣	553.50c	-4.00
Platinum (per troy oz.)	$410.75	-0.75
Palladium (per troy oz.)	$138.00	-0.75
Copper	124.0c	+2.0
Lead (US prod.)	45.00c	+3.25
Tin (Kuala Lumpur)	15.28	
Tin (New York)	289.5	
Cattle (live weight)†	120.37p	+3.53*
Sheep (live weight)†♠	147.58p	+10.83*
Pigs (live weight)†	108.44p	+1.25*
Lon. day sugar (raw)	$322.8	
Lon. day sugar (wte)	$401.4	+2.9
Barley (Eng. feed)	113.25	
Maize (US No3 Yellow)	146.5z	
Wheat (US Dark North)	Unq.	
Rubber (Apr)♥	105.00p	
Rubber (May)♥	104.25p	-0.75
Rubber (KL RSS No1)	389.00m	-3.50
Coconut Oil (Phil)§	$720.0v	+2.5
Palm Oil (Malay.)§	$522.5y	-2.5
Copra (Phil)§	457.0	-5.0
Soyabeans (US)	208.0	-1.0
Cotton Outlook'A' index	83.70	-0.50
Wooltops (64s Super)	440p	

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. m Malaysian cents/kg. x May. v Apr/May. y Apr/Jun. ♥ London Physical. § CIF Rotterdam. ♣ Bullion market close. ♠ Sheep (Live weight prices). * Change on week †Prices are for previous week.

JOTTER PAD

CROSSWORD

No.9,022 Set by DOGBERRY



ACROSS

1 Right side getting about a bit (8)
5 Doctor lout outside the Boar's Head – rugby player perhaps (3,3)
9 Affected composer producing lots of records (8)
10 Headless horsy eating top of citrus fruit (6)
12 Gas alien woman (5)
13 Plait in an awful jam (9)
14 State in decline turns quiet (6)
16 Damaged pylon? Try to get into shape (7)
19 Quoted in true display of *memory* (7)
21 Girl back in gaol in the islands (6)
23 Composer's dozen? Double it perhaps (9)
25 Guide prophet round junction (5)
26 Compiler in the money acquires bond (6)
27 Hopes dashed in seat at saucy display (4-4)
28 Most of paradise is found in whisky, whisky.... (6)
29 It always turns into eccentric supporter (8)

DOWN

1 It's yellow and soft in the bog (6)
2 A trainee with indigestion keeps house for addict (9)
3 Not one to give up German town (5)
4 Went too far, making poet eat red pulp (7)
6 Love, being in control, to hold up the song (9)
7 Turning round, thrust point into instrument (5)
8 Hot about soldiers, like a teenage voice (8)
11 Skip 1984, say? (4)
15 One note on religion to shout about, people! (9)
17 It scatters mock silence in the poet's cave (9)
18 Generator making up record (8)
20 Music-maker rising somewhat petulantly (4)
21 Ringer with a delusion (7)
22 Made drink from sheep in the German republic (6)
24 Wanderer's unhinged? No, just changing places (5)
25 Sentimental agent accepts work (5)

Solution to Saturday's prize puzzle on Saturday March 30.
Solution to yesterday's prize puzzle on Monday April 1.

INTERNATIONAL CAPITAL MARKETS

Part of recent losses regained

By Samer Iskander in London and Lisa Bransten in New York

International government bonds took a respite yesterday from last week's gloom and recovered part of their recent losses. However, traders are still divided over the future direction of yields.

Although economic fundamentals point to the need for further rate cuts in Germany, France and possibly the UK, some analysts continue to fear a repeat of 1994, a very bad year for most bond markets.

Economists at Deutsche Morgan Grenfell predict that "the bull market is over for now and, by year-end, yields should be higher". They also expect German yields to be below those on US Treasuries.

This last view is shared by Mr Simon Briscoe, an economist at Nikko in London. According to him, the cross-over of German and US yields should pave the way for a decoupling of European bonds from US Treasuries.

■ UK gilts opened lower following last Friday's weak performance, but climbed steadily throughout the day. The benchmark 7½ per cent gilt due 2006 ended 5/32 higher at 95 21/32. Liffe's June 10-year gilt future settled at 105 1/32, up 9/32.

Signs of a change in sentiment are appearing, after two weeks of pessimism and instability in the market.

Yesterday's rise, although modest, shows that "last Friday's pessimism was overdone", said Mr Briscoe at Nikko. He expects the next few weeks to be more positive for European markets.

Capital flows from the Far East should favour Europe, and the UK in particular, over the US market in the new Japanese fiscal year, which starts on April 1.

In the medium term, Mr Briscoe expects a shift in next year's annual funding to shorter-term securities (two to five-year maturities). Longer dated paper would benefit from such a decision, which could lead to a flatter UK yield curve.

■ German bunds closed slightly higher, but off the peaks reached earlier in the day, as the market was hit by rumours that the rate of growth of the M3 monetary aggregate in February would be higher than anticipated, possibly "in double digits" according to some analysts. Liffe's June 10-year bund future settled at 95.38, up 0.05.

A rumour also circulated about the possibility of a two-percentage point rise in VAT to 17 per cent early next year, in order to bolster state finances.

GOVERNMENT BONDS

However, market participants are still bullish and expect future data releases to continue to show weak economic activity.

A cut in the discount rate is widely expected, possibly as soon as March 28, but economists warn that it might be delayed if the market remains unstable or the M3 data is exceptionally strong.

Nikko's Mr Briscoe forecasts M3 growth at around 9 per cent, above the Bundesbank's target range of 4 to 7 per cent.

■ French bonds rallied in line with other European markets. The Matif's June notional future ended up 0.40 at 120.56, in technical trading, mostly due to the rolling of positions out of March contracts into the new June maturity.

In the cash market, the benchmark 7¼ per cent OAT due 2006 closed up 0.35 at 103.92, yielding 6.70 per cent. This brought the spread over 10-year bunds to 16 basis points, a level considered "not sustainable" after several weeks of tightening.

Analysts are now expecting it to start widening, although "what it will take to trigger [the widening] is not obvious", said Mr Jonathan Davies, a bond analyst at UBS Ltd.

One such trigger could be a "resumption of the rally in European bonds", said Mr Davies, who believes the strength of the French market is mostly due to domestic switching from tax-free savings accounts – on which rates were recently lowered from 4 per cent to 3.50 per cent – into life insurance contracts and other guaranteed-return funds invested in long-term bonds.

■ US Treasury prices rebounded from Friday's losses in quiet trading yesterday as the market continued to grapple with uncertainty about the strength of the economy.

In the afternoon, the benchmark 30-year Treasury was up 16/32 at 90 28/32 to yield 6.738 per cent. At the short end of the maturity spectrum the two-year note was unchanged at 99¾, yielding 5.88 per cent.

Observers expect the market to remain volatile as traders continue to reassess their views about the economy and the potential for inflationary pressures in the wake of surprisingly strong employment figures released at the beginning of the month.

Mr Thomas Poor, who manages short-term bond portfolios at Scudder Stevens & Clark, sees the market as a see-saw balanced between those who believe the jobs figures are a sign the economy is about to take off and those who think the number was an aberration in a slowing economy.

While the see-saw may be slightly tilted towards those fearful that economic growth is on the rise, Mr Poor said he believes the employment figure was "just a hitch, and we will have a soft landing with a period of slow growth".

Today's figures on February retail sales will be closely watched for signs of whether growth in consumer spending will spur economic growth.

Next week, the Federal Reserve's Open Market Committee is due to consider monetary policy. In a survey of Fed-watchers last Friday by MMS International, 57 per cent "still expect the Fed to ease policy through the remainder of the year". However, this is down from "nearly all Fedwatchers prior to the February employment report released on March 8".

■ Japanese government bonds ended lower despite a rise in the Nikkei share index. The June 10-year JGB future closed at 118.69, down 0.21, and the June contract on five-year notes fell 0.07 to 112.79.

Sales by institutional investors weighed on the market as the volume of transactions remained very low, which is traditional around the fiscal year-end.

In the past few weeks, JGBs have been immune to the turmoil which affected US and leading European markets. Japanese 10-year yields fell by about 5 basis points over the past few days, making JGBs the best performing bond market so far in March.

■ Swedish bonds rallied sharply as traders welcomed the outcome of last weekend's Social Democratic Party congress. Optimism over the SDP's determination to tackle public deficits pulled the benchmark 6 per cent bond due 2005 up 1.83 to 82.79, yielding 8.88 per cent. This yield has decreased by 30 basis points in the last week.

■ Other European high-yielders also closed higher. Spanish markets were bolstered by hopes that the Popular party may be able to form a government with the support of Catalan nationalists.

On Meff the June futures contract settled at 93.36, up 0.78 on the day, while in the cash market the 10-year yield spread over bunds narrowed to 351 basis points, from 358 points late on Friday.

A stronger lira buoyed the Italian markets. Liffe's June 10-year BTP future settled at 108.67, up 0.22.

Discount pricing for Kenya Airways

By Joel Kibazo

Kenya Airways, the state-owned carrier which is being privatised, yesterday announced that its shares will be priced at Ksh11.25 a share, in the country's largest share flotation.

The offer for 48 per cent of the company has been priced at a deep discount to the asset value of Ksh17.38 a share in a bid to ensure that a wide cross-section of the Kenyan public can participate in the sale. The company is valued at around $100m.

Analysts expect the four-week offer, which opens next Monday, to be oversubscribed. Around 34 per cent of the stock has been set aside for the Kenyan public and institutions and 14 per cent for international investors, particularly the growing band of specialist Africa funds.

KLM, the Dutch national carrier, bought a 26 per cent stake in the carrier last January, beating competition from both British Airways and South African Airways.

The government is to retain 23 per cent of the newly privatised company while 3 per cent of the shares will be retained for an employee share ownership scheme.

A long history of mismanagement at the 17 year-old airline saw losses hit $50m in 1992, before a new management team led by Mr Brian Davies, a former general manager at British Airways, helped bring about a recovery. The company reported profits of $17m last year and analysts expect it to comfortably beat projections of $22m this year.

The sale on the Nairobi stock exchange will be the biggest in its 42-year history and is expected to reverse the slide seen in the index over the last 15 months.

Improving tone prompts European bank offerings

By Richard Lapper

The improving tone in government bond markets helped stimulate primary issuance yesterday, with European banks particularly prominent.

Syndicate managers said the markets had now fully discounted recent shifts in interest rate expectations and investors were becoming less defensive in their approach.

Mr Joseph Dryer, head of new issues at Paribas Capital Markets, said: "The wild swings we were seeing 10 days ago have smoothed out. The markets have begun to regain their composure."

Paribas was book-runner on two issues – a $200m deal for KfW, the German reconstruction agency, and with Caisse des Dépôts, a FFr3bn issue for Abbey National Treasury Services, the funding arm of the UK bank.

The four-year KfW deal, priced at 5 basis points over the interpolated curve, was targeted primarily at retail investors, while demand for the 10-year Abbey National issue had come mainly from French insurance companies and pension funds.

The spread on the Abbey National paper widened fractionally – from 18 to 19 basis points over OATs – when the bonds were freed to trade. Proceeds were swapped to yield funding at a few basis points under Libor.

INTERNATIONAL BONDS

Another dollar issue – a $200m three-year deal for DePfa Bank, the German mortgage bank, was also targeted at retail investors. By mid-afternoon 40 per cent of the paper had been placed, according to syndicate managers at BNP Capital Markets.

Launched at 15 basis points on the re-offer price (and 23 basis points at full fees), the spread moved out to between 18½ and 19½ points when the bonds were freed to trade.

Interest in a $150m deal for Indorayon International Finance, the funding arm of PT Inti Indorayon Utama, an Indonesian pulp and rayon producer, was heavily institutional, according to syndicate managers at book-runners SBC Warburg.

The company, which specialises in processing dissolving pulp, is one of a handful of Indonesian corporates exploring the fixed-rate sector as an alternative to syndicated loans and floating-rate notes.

Rated BB by credit rating agencies, the Indorayon five-year issue is puttable and callable at par within three years and is priced at a spread of 395 basis points over Treasuries.

The spread on a recent Indonesian deal – a five-year Rupiah 144a global registered note issue made last week by Matahari Putra Primar – has narrowed to 475 basis points, from 520 points at launch.

Romania, which earlier this month received credit ratings, is to issue a eurobond and a samurai in the first half of this year. Merrill Lynch and Nomura have been mandated to lead manage the inaugural issues by the National Bank of Romania, which is being tipped to raise up to $150m with each issue.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
ACCMT II, S 96-B, Tch A(a)‡	848.75	(a1)	100.00R	Aug 2004	0.375R	-	JP Morgan Securities
MMCCT II, S 96-B, Cls A(b)‡	435	(b1)	100.00	Mar 2006	-	-	Lehman Brothers
KfW International Finance	200	6.125	99.64R	Apr 2000	0.225R	+5(i)	Paribas Capital Markets
DePfa Bank	200	6.125	99.696R	Apr 1999	0.2125R	+15(5%-99)	BNP Capital Markets
Indorayon Intl Finance(c)	150	10.00	99.53R	Mar 2001	1.00R	+395(5%-99)	SBC Warburg
D-MARKS							
Rheinische Hypo(d)	500	5.50	98.065	Dec 2001	0.275	-	Commerz/Dresdner/JPM/UBS
SWISS FRANCS							
Helaba Finance(e)	400	3.75	102.60	Dec 2000	2.00	-	Credit Suisse
Bayerische Landesbank(f)	100	4.00	103.35	Mar 2001	2.00	-	Merrill/Zürcher KB
FRENCH FRANCS							
Abbey Natl Treasury Services	3bn	6.75	99.11R	Apr 2006	0.35R	+18(7¼%-06)	Banque Paribas/CDC
LUXEMBOURG FRANCS							
CCBP	2bn	5.75	102.60	May 2000	1.625	-	BCEE/BIL
ITALIAN LIRE							
Deutsche Bank Finance	200bn	9.25	100.955	Apr 1998	1.125	-	Deutsche Morgan Grenfell
ESCUDOS							
Kingdom of Sweden‡	10bn	(g)	100.00	Apr 2001	undiscl	-	Banco ESSI

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Advanta Credit Card Master Trust. Legal maturity: Jan 07. a1) 3-mth Libor +23bp. a2) Tranche B: $41.25m, 15/9/04, 3-mth Libor +37½bp, par. b) MBNA Master Credit Card Trust. Legal maturity: Aug08. b1) 1-mth Libor +26bp. b2) Class B: $22.5m, 15/4/06, 1-mth Libor +37bp, par. c) Callable and puttable on 29/3/99 at par. d) Oeffentliche pfandbrief. Fungible with DM3bn. Plus 110 days accrued. e) Fungible with SFr600m. Plus 121 days accrued. f) Fungible with SFr150m. Plus 30 days accrued. g) 3-mth Lisbor +6.25bp; max 10% from 9/1/98. i) Over interpolated yield

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	02/06	106.1720	-0.680	9.05	9.09	8.13
Austria		6.125	02/06	96.2500	+0.300	6.65	6.66	6.75
Belgium		7.000	05/06	100.5700	+0.050	6.92	7.33	6.51
Canada *		8.750	12/05	106.5400	+0.170	7.77	7.82	7.06
Denmark		8.000	03/06	101.9600	+0.160	7.71	7.74	7.26
France	BTAN	5.750	03/01	99.2500	+0.130	5.93	5.75	5.47
	OAT	7.250	04/06	103.9200	+0.350	6.70	6.65	6.50
Germany Bund		6.000	02/06	96.1600	+0.130	6.54	6.52	6.05
Ireland		8.000	08/06	99.3000	-0.400	8.09	8.08	7.45
Italy		9.500	02/06	93.9500	+0.120	10.50†	10.51	10.01
Japan	No 129	6.400	03/00	117.0880	-0.060	1.81	1.80	1.85
	No 182	3.000	09/05	98.6160	-0.220	3.19	3.20	2.94
Netherlands		6.000	01/06	95.9400	+0.320	6.57	6.52	6.09
Portugal		11.875	02/05	111.8700	+0.070	8.81	8.83	9.45
Spain		10.150	01/06	99.7500	-0.210	10.02	10.07	9.65
Sweden		6.000	02/05	82.7860	+1.830	8.88	9.17	8.79
UK Gilts		8.000	12/00	102-05	-	7.44	7.50	6.92
		7.500	12/06	95-21	+6/32	8.11	8.12	7.64
		9.000	10/08	106-00	+8/32	8.22	8.24	7.78
US Treasury *		5.625	02/06	94-09	+6/32	6.41	6.39	5.66
		6.000	02/26	90-28	+16/32	6.71	6.70	6.14
ECU (French Govt)		7.500	04/05	101.3400	+0.270	7.29	7.22	6.91

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	5.28	Two year	5.85
Prime rate	8¼	Two month	5.23	Three year	5.97
Broker loan rate	7	Three month	5.14	Five year	6.13
Fed funds	5 5/16	Six month	5.22	10-year	6.41
Fed funds at intervention	-	One year	5.47	30-year	6.70

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	120.56	120.66	-	120.80	120.64	18,351	43,757
Jun	120.12	120.56	+0.40	120.70	120.08	108,797	129,126
Sep	118.90	119.36	+0.40	119.46	118.90	272	2,448

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Apr	Calls May	Calls Jun	Puts Apr	Puts May	Puts Jun
119	-	-	-	0.08	0.47	0.78
120	0.82	1.27	1.84	0.28	0.76	1.09
121	0.30	-	1.10	0.71	-	1.55
122	0.05	0.35	0.65	-	-	-
123	-	0.15	0.34	-	-	-

Est. vol. total, Calls 20,448 Puts 16,156. Previous day's open int., Calls 159,458 Puts 162,512.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE) DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	95.28	95.38	+0.05	95.49	95.05	109907	227912
Sep	94.35	94.50	+0.06	94.58	94.35	41	3748

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
9500	0.55	1.11	1.37	1.36	0.17	0.73	0.99	1.83
9550	0.25	0.83	1.08	1.13	0.37	0.95	1.20	2.10
9600	0.08	0.60	0.84	0.93	0.70	1.22	1.46	2.40

Est. vol. total, Calls 15658 Puts 11690. Previous day's open int., Calls 234468 Puts 205991

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	108.30	108.67	+0.22	108.85	108.11	27860	53082
Sep	-	108.12	+0.17	-	-	0	0

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Jun	Calls Sep	Puts Jun	Puts Sep
10850	1.96	2.50	1.79	2.88
10900	1.68	2.28	2.01	3.16
10950	1.45	2.07	2.28	3.45

Est. vol. total, Calls 1238 Puts 445. Previous day's open int., Calls 53040 Puts 45305

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	92.85	93.36	+0.78	93.38	92.35	36,459	40,412

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Mar	105-19	105-31	+0-09	105-30	105-18	6447	11652
Jun	104-22	105-01	+0-09	105-04	104-14	23821	113085

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Apr	Calls May	Calls Jun	Calls Sep	Puts Apr	Puts May	Puts Jun	Puts Sep
105	0-32	1-12	1-36	1-48	0-30	1-10	1-34	2-52
106	0-09	0-46	1-06	1-24	1-07	1-44	2-04	3-28
107	0-02	0-26	0-47	1-04	2-00	2-24	2-45	4-08

Est. vol. total, Calls 1221 Puts 2267. Previous day's open int., Calls 46928 Puts 31779

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Mar	88.64	88.80	+0.12	89.00	88.60	331	2,705
Jun	88.12	88.42	+0.24	88.46	88.10	1,354	7,726

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Mar	111-06	111-21	+0-17	111-24	111-04	19,893	45,617
Jun	110-23	111-05	+0-18	111-08	110-16	376,920	342,273
Sep	110-03	110-22	+0-20	110-23	110-03	1,142	13,737

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Jun	118.66	-	-	118.76	118.64	1003	0
Sep	117.48	-	-	117.60	117.48	75	0

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FT-ACTUARIES FIXED INTEREST INDICES

Price Indices UK Gilts	Mon Mar 18	Day's change %	Fri Mar 15	Accrued interest	xd adj. ytd		Low coupon yield Mar 18	Mar 15	Yr. ago	Medium coupon yield Mar 18	Mar 15	Yr. ago	High coupon yield Mar 18	Mar 15	Yr. ago
1 Up to 5 years (23)	121.61	-	121.61	2.28	1.87	5 yrs	7.52	7.53	8.41	7.57	7.58	8.44	7.66	7.67	8.59
2 5-15 years (20)	145.36	+0.14	145.16	2.87	1.69	15 yrs	8.29	8.31	8.35	8.30	8.32	8.45	8.41	8.44	8.67
3 Over 15 years (9)	157.68	+0.28	158.19	1.73	3.48	20 yrs	8.37	8.40	8.33	8.37	8.39	8.45	8.48	8.49	8.61
4 Irredeemables (6)	181.52	-0.09	181.69	4.37	0.00	Irred.†	8.45	8.44	8.38						
5 All stocks (58)	140.66	+0.11	140.66	2.50	2.06										

Index-linked							Inflation 5% Mar 18	Mar 15	Yr. ago	Inflation 10% Mar 18	Mar 15	Yr. ago
6 Up to 5 years (1)	196.47	+0.05	196.37	3.49	0.00	Up to 5 yrs	3.04	3.06	3.57	1.83	1.84	2.30
7 Over 5 years (11)	183.56	+0.08	183.41	0.99	0.98	Over 5 yrs	3.80	3.80	3.85	3.61	3.62	3.67
8 All stocks (12)	183.73	+0.08	183.58	1.04	0.96							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT FIXED INTEREST INDICES

	Mar 18	Mar 15	Mar 14	Mar 13	Mar 12	Yr ago	High*	Low*
Govt. Secs. (UK)	92.22	92.30	92.40	92.31	91.97	91.88	96.34	90.22
Fixed Interest	110.65	110.74	110.88	111.26	111.12	110.29	115.23	108.77

* for 1995/96. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974

GILT EDGED ACTIVITY INDICES

	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11
Gilt Edged bargains	91.0	118.6	107.4	214.9	129.30
5-day average	132.6	148.2	143.4	149.2	132.40

UK GILTS PRICES

[illegible]

● "Tap" stock. ‡‡ Tax-free to non-residents on application. E Auction basis. xd Ex dividend. Closing mid-prices are shown in pounds per £100 nominal of stock. Prospective real Index-Linked redemption yields are calculated by HSBC Greenwell from Bank of England closing prices.

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on March 18

[illegible]

STRAIGHT BONDS: The yield is the yield to redemption of the bid-price; the amount issued is in millions of currency units. Chg. day=Change on day. FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. Spread=Margin above six-month offered rate (three-month §above mean rate) for US dollars. C.cpn=The current coupon. CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Cnv. price=Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem=Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

CURRENCIES AND MONEY

MARKETS REPORT

D-Mark slips as Swedish krona leads the way

By Philip Gawith

The D-Mark traded lower on the foreign exchanges yesterday as a strong performance from the Swedish krona spilled over into more generalised D-Mark weakness.

The krona's performance followed the performance by Mr Goran Persson, the incoming prime minister, at the weekend conference of the Social Democratic party. He allayed fears that his accession to the country's top job would mark a return to the larger state previously associated with the "Swedish model", which predated more recent policies of fiscal stringency.

The krona closed in London at SKr4.557, from SKr4.598. The lira rallied on the krona's good performance, finishing at L1,059 against the D-Mark, from L1,062.

Volumes in the markets remained thin, with many currencies still confined to fairly narrow ranges. The dollar finished at DM1.4742, from DM1.476. Against the yen it closed at Y106.01, from Y105.9. There is little sense in the market of what might provide markets with some fresh trading direction.

Sterling made ground against both the D-Mark and the dollar, finishing at DM2.258, from DM2.2491, and at $1.5317 from $1.5238.

■ Led by the krona, it was a day for the "high-yielders". Mr Persson's performance was taken by the market as representing a defeat for the left of his party, leaving the government's fiscal policy still intact.

Mr Brian Martin, economist at Barclays in London, said he doubted whether the krona could rally much beyond SKr4.50. "In an environment of weak European growth, it would be be very hard for exporters to compete beyond that." Exports are a key engine of economic growth in Sweden, and some observers believe the government would be keen to maintain some degree of exchange rate competitiveness.

The broader move into "high-yielders" would appear to reflect the high yield premium some of these currencies enjoy – more than compensating for any actual or anticipated discrepancies in inflation.

■ Mr Terry Smeeton, head of the Bank of England's foreign exchange division, made some interesting comments to the Dow Jones Telerate conference in London on the disjuncture between growing turnover and declining liquidity in foreign exchange markets.

"The increased profile of the D-Mark in Europe undoubtedly means that liquidity, which was formerly concentrated on the dollar-based markets, is now split between the dollar-based element and the DM-based element." Such is the heightened profile of the D-Mark in Europe, he said, that these markets now often have more liquidity than those which are dollar based."

Mr Smeeton also made reference to the "decline of the jobbing bank of the FX markets". He pointed out that around ten years ago, there were a number of large and medium sized banks which always put prices into the market in modest amounts, maybe £3-5m. They saw significant volumes of business during the course of a day and made a couple of points spread on the business they quoted.

"That style of dealing and those institutions which engaged in it have either disappeared or moved towards seeking more customer orientated business," he said.

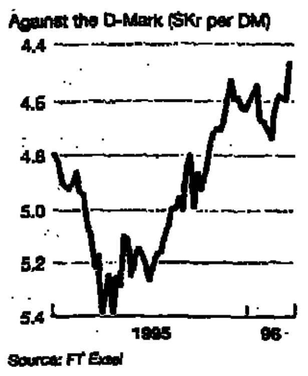
Mr Smeeton cited two other factors which contributed to declining liquidity. One was, paradoxically, the increased importance of customer business, and the fierce competition to get it. He said the declining portion of overall market activity represented by interbank business, showed "that the capacity of the banks to absorb customer business without reflecting all of the orders immediately in the market is greatly reduced."

"Liquidity is there for the customer and, at a price, for the bank involved, but liquidity is not necessarily there on both sides of a price. Normally, one side is very liquid...If you deal on the illiquid side of the price then you often have to accept that liquidity will only be found at an inferior price level."

The other factor was the new generation of dealers, some of whom preferred "the detachment of the computer" to the spoken word. "Such an individual is less likely to provide support prices and to feel any responsibility for market liquidity than was his more extrovert predecessor."

Swedish Krona

Against the D-Mark (SKr per DM)



Source: FT Extel

■ Pound in New York

Mar 18	Latest	Prev. close
£ spot	1.5305	1.5295
1 mth	1.5297	1.5287
3 mth	1.5282	1.5270
1 yr	1.5218	1.5203

■ OTHER CURRENCIES

Mar 18	£	$
Czech Rp	41.7175 - 41.7574	27.2450 - 27.2550
Hungary	218.426 - 218.531	142.650 - 142.700
Iran	4596.20 - 4563.60	3000.00 - 3000.00
Kuwait	0.4572 - 0.4593	0.2986 - 0.2991
Poland	3.9398 - 3.9444	2.5730 - 2.5745
Russia	7353.76 - 7407.70	4832.00 - 4835.00
U.A.E.	5.6233 - 5.6274	3.6728 - 3.6730

POUND SPOT FORWARD AGAINST THE POUND

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	15.8791	+0.0615	707 - 874	15.8874	15.8066	15.8491	2.3	15.7866	2.8	-	-	105.9
Belgium	(BFr)	46.3975	+0.1806	724 - 226	46.4226	46.2010	46.2925	2.7	46.0825	2.7	45.1725	2.6	108.2
Denmark	(DKr)	8.7258	+0.0348	209 - 307	8.7307	8.6826	8.7134	1.7	8.6898	1.7	8.5909	1.5	109.0
Finland	(FM)	7.0592	+0.0077	516 - 668	7.0668	7.0340	7.0548	0.7	7.0467	0.7	-	-	83.3
France	(FFr)	7.7322	+0.0256	287 - 356	7.7356	7.7006	7.7195	2.0	7.6983	1.8	7.6041	1.7	109.5
Germany	(DM)	2.2580	+0.0088	568 - 591	2.2591	2.2467	2.2527	2.8	2.243	2.7	2.1979	2.7	110.2
Greece	(Dr)	369.273	+0.727	065 - 481	370.303	367.439	-	-	-	-	-	-	66.3
Ireland	(I£)	0.9697	+0.0009	688 - 706	0.9706	0.9684	0.9689	1.0	0.9677	0.8	0.9627	0.7	97.8
Italy	(L)	2391.37	+2.01	036 - 237	2394.68	2385.17	2399.52	-4.1	2414.27	-3.8	2467.82	-3.2	73.8
Luxembourg	(LFr)	46.3975	+0.1806	724 - 226	46.4226	46.2010	46.2925	2.7	46.0825	2.7	45.1725	2.6	108.2
Netherlands	(Fl)	2.5266	+0.0109	254 - 277	2.5277	2.5140	2.5207	2.8	2.5087	2.8	2.457	2.8	108.3
Norway	(NKr)	9.8355	+0.039	269 - 442	9.8442	9.7856	9.8256	1.2	9.8054	1.2	9.7145	1.2	98.7
Portugal	(Es)	233.669	+0.619	523 - 814	234.716	232.883	234.094	-2.2	234.999	-2.3	-	-	95.4
Spain	(Pta)	190.078	+0.403	945 - 210	190.210	188.439	190.498	-2.7	191.283	-2.5	194.013	-2.1	81.9
Sweden	(SKr)	10.2869	-0.048	789 - 989	10.3585	10.2617	10.2904	-0.2	10.2924	-0.1	10.2979	-0.1	87.7
Switzerland	(SFr)	1.8211	+0.0071	198 - 224	1.8224	1.8094	1.8147	4.2	1.8019	4.2	1.7475	4.0	114.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	83.6
Ecu	-	1.2213	+0.0058	206 - 219	1.2219	1.2129	1.22	1.3	1.217	1.4	1.2042	1.4	-
SDR†	-	1.047600	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.5313	+0.0079	307 - 318	1.5318	1.5165	-	-	-	-	-	-	-
Brazil	(R$)	1.5103	+0.006	098 - 108	1.5113	1.4924	-	-	-	-	-	-	-
Canada	(C$)	2.0834	+0.0044	824 - 844	2.0864	2.0770	2.0821	0.7	2.08	0.7	2.0746	0.4	84.5
Mexico	(New Peso)	11.5671	+0.0441	560 - 781	11.9200	11.5016	-	-	-	-	-	-	-
USA	($)	1.5317	+0.0079	312 - 321	1.5321	1.5261	1.5309	0.6	1.5293	0.6	1.5229	0.6	95.5
Pacific/Middle East/Africa													
Australia	(A$)	1.9795	+0.0101	783 - 807	1.9858	1.9627	1.9819	-1.5	1.9864	-1.4	2.0107	-1.6	90.4
Hong Kong	(HK$)	11.8417	+0.0606	374 - 459	11.8459	11.7256	11.8351	0.7	11.8258	0.5	11.8048	0.3	-
India	(Rs)	53.3168	+1.005	858 - 477	53.4670	51.7580	-	-	-	-	-	-	-
Israel	(Shk)	4.7361	+0.0205	320 - 402	4.7402	4.6946	-	-	-	-	-	-	-
Japan	(Y)	162.370	+0.999	261 - 479	162.479	160.160	161.82	5.5	160.135	5.5	153.76	5.3	136.9
Malaysia	(M$)	3.8896	+0.0187	877 - 915	3.9153	3.8598	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.2460	+0.0174	442 - 478	2.2500	2.2044	2.2508	-2.6	2.2597	-2.4	2.2934	-2.1	106.5
Philippines	(Peso)	40.0910	+0.1903	409 - 410	40.1410	40.0409	-	-	-	-	-	-	-
Saudi Arabia	(SR)	5.7444	+0.0293	425 - 463	5.7463	5.6978	-	-	-	-	-	-	-
Singapore	(S$)	2.1546	+0.0102	532 - 560	2.1560	2.1363	-	-	-	-	-	-	-
South Africa	(R)	6.0283	+0.037	207 - 319	6.0320	5.9266	-	-	-	-	-	-	-
South Korea	(Won)	1197.37	+7.82	694 - 780	1197.80	1183.78	-	-	-	-	-	-	-
Taiwan	(T$)	42.0392	+0.1956	238 - 546	42.0735	41.7038	-	-	-	-	-	-	-
Thailand	(Bt)	38.6665	+0.221	475 - 855	38.6855	38.2610	-	-	-	-	-	-	-

† Rates for Mar 15. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Mar 18		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.3673	-0.0131	649 - 697	10.3820	10.3390	10.3513	1.9	10.3198	1.8	10.1973	1.6	105.9
Belgium	(BFr)	30.2925	-0.0375	850 - 000	30.3400	30.2400	30.2405	2.1	30.1375	2.0	29.6825	2.1	107.9
Denmark	(DKr)	5.6970	-0.0065	955 - 985	5.7035	5.6810	5.692	1.1	5.6825	1.0	5.7045	-0.1	108.3
Finland	(FM)	4.6089	-0.0187	053 - 125	4.6159	4.5978	4.6034	1.4	4.5919	1.5	4.5514	1.2	82.5
France	(FFr)	5.0483	-0.0092	475 - 490	5.0595	5.0370	5.0429	1.3	5.0338	1.1	4.9968	1.0	109.0
[illegible]													

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Mar 18		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£
Belgium	(BFr)	100	18.81	16.66	4.866	2.088	5153	5.444	21.20	503.4	409.5	22.18	3.925	2.155
Denmark	(DKr)	53.17	10	8.861	2.588	1.110	2740	2.895	11.27	267.7	217.7	11.79	2.087	1.146
[illegible]														

■ D-MARK FUTURES (IMM) DM 125,000 per DM — [illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100 — [illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr — [illegible]

■ STERLING FUTURES (IMM) £62,500 per £ — [illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

UK clearing bank base lending rate 6 per cent from March 8, 1996

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100% — [illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100% — [illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound) — [illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100% — [illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100% — [illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100% — [illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100% — [illegible]

BASE LENDING RATES

Adam & Company	6.00	Duncan Lawrie	6.00	Royal Bk of Scotland	6.00
Allied Trust Bank	6.00	Exeter Bank Limited	7.00	●Singer & Friedlander	6.00
AIB Bank	6.00	Financial & Gen Bank	7.00	●Smith & Williamson Secs	6.00
●Henry Ansbacher	6.00	●Robert Fleming & Co	6.00	TSB	6.00
Bank of Baroda	6.00	Girobank	6.00	United Bank of Kuwait	6.00
Banco Bilbao Vizcaya	6.00	●Guinness Mahon	6.00	Unity Trust Bank Plc	6.00
Bank of Cyprus	6.00	Habib Bank AG Zurich	6.00	Western Trust	6.00
Bank of Ireland	6.00	●Hambros Bank	6.00	Whiteaway Laidlaw	6.00
Bank of India	6.00	Heritable & Gen Inv Bk	6.00	Yorkshire Bank	6.00
Bank of Scotland	6.00	●C. Hoare & Co	6.00		
Barclays Bank	6.00	Hongkong & Shanghai	6.00	● Members of London Investment Banking Association	
Brit Bk of Mid East	6.00	Julian Hodge Bank	6.25	* In administration	
●Brown Shipley & Co Ltd	6.00	●Leopold Joseph & Sons	6.00		
Citibank NA	6.00	Lloyds Bank	6.00		
Clydesdale Bank	6.00	Meghraj Bank Ltd	6.00		
The Co-operative Bank	6.00	Midland Bank	6.00		
Coutts & Co	6.00	●Mount Credit Corp	6.25		
Credit Lyonnais	6.00	NatWest	6.00		
Cyprus Popular Bank	6.25	●Rea Brothers	6.00		

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate (FFr5m) — [illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100% — [illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100% — [illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100% — [illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100% — [illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100% — [illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	[illegible]	491	+10½	666	478½	5,088	6.0	17.8
Bulmer (HP)	[illegible]	569	—	673	401	300.4	2.7	17.9
Burn St Dist	[illegible]	117	—	148	99	88.4	5.3	25.2
Grand Met	[illegible]	428xd	+4½	457	374	8,882	4.4	18.4
Guinness	[illegible]	471	+3½	538	435	9,542	3.7	14.8
Highland	[illegible]	348	-1	406	315	463.5	2.8	15.8
Kirin Y		767½	-7¾	806	621	7,972	0.8	29.3
Macallan-Glen	[illegible]	161	—	217	157	189.0	1.0	35.7
Macdon Martin A	[illegible]	633	—	680	600	65.7	2.2	17.8
Matthew Clark	[illegible]	699xd	—	705	549	618.5	3.9	-
Merrydown	[illegible]	102	—	140	68	11.1	2.5	-
Seagram S		£21[illegible]	[illegible]	£25[illegible]	£16[illegible]	5,888	1.3	-

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Barings 9pc Cm 2nd Prf		501½	—	501½	501½	6.31	19.8	-
Cater Allen	[illegible]	460	—	626	424	146.7	8.3	7.4
Close Bros	[illegible]	355xd	+6	392	246¼	433.5	3.2	15.7
Gerrard & Nat	[illegible]	399	-3	472	399	195.1	7.0	12.9
Hambros	[illegible]	223	—	238	180	412.2	4.0	-
7½pc Cv Pf		106xd	—	107½	94½	136.5	8.8	-
For Joseph Leopold see Leopold Joseph								
King & Shaxson	[illegible]	151	—	185	85	39.9	7.5	11.7
Leopold J	[illegible]	450	—	483	353	23.9	5.2	15.5
Rea Brothers	[illegible]	60	—	67	44	29.0	2.1	24.0
Schroders	[illegible]	1208	+19	1478	1005¼	1,824	1.7	16.1
N/V	[illegible]	958	+18	1180	890	421.5	2.1	13.2
Singer & Fried	[illegible]	105	+3	113	81	207.3	4.4	10.9
6½pc Cv Ln 09/11		£131½	—	£137	[illegible]	40.3	6.5	-

[illegible]

BANKS, RETAIL

[illegible]

BREWERIES, PUBS & REST

[illegible]

BUILDING & CONSTRUCTION

[illegible]

BUILDING MATS. & MERCHANTS

[illegible]

CHEMICALS

[illegible]

DISTRIBUTORS

[illegible]

DIVERSIFIED INDUSTRIALS

[illegible]

ELECTRICITY

[illegible]

ELECTRONIC & ELECTRICAL EQPT

[illegible]

ELECTRONIC & ELECTRICAL EQPT - Cont.

[illegible]

ENGINEERING

[illegible]

ENGINEERING - Cont.

[illegible]

ENGINEERING, VEHICLES

[illegible]

EXTRACTIVE INDUSTRIES

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

EXTRACTIVE INDUSTRIES - Cont.

[illegible]

FOOD PRODUCERS

[illegible]

GAS DISTRIBUTION

[illegible]

HEALTH CARE

[illegible]

HEALTH CARE - Cont.

[illegible]

HOUSEHOLD GOODS

[illegible]

INSURANCE

[illegible]

INVESTMENT TRUSTS

[illegible]

INVESTMENT TRUSTS - Cont.

[illegible]

INV TRUSTS SPLIT CAPITAL

[illegible]

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LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LEISURE & HOTELS - Cont.

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

OTHER FINANCIAL

OTHER FINANCIAL - Cont.

PAPER, PACKAGING & PRINTING

PHARMACEUTICALS

PROPERTY

PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, GENERAL

RETAILERS, GENERAL - Cont.

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap £m	Yld Gr's	P/E
Anglo Am Ind		£30½	—	£34½	£30½	2,035	3.0	Φ
Barlow	♣	591½	—	£10⅜	554	1,785	1.6	Φ
Energy Africa		173	-1	174	173	167.8	—	—
Gold Flds Prop R		158xd	—	170	135	15.9	6.4	7.5
HK Props.		85	—	88	85	3.42	12.5	—
SASOL	♥	635	—	645	475	3,724	2.0	—
SA Brews		£22⅞	—	£28⅞	£16⅝	6,645	1.5	32.4
Standard Bank	□	£30⅞	+⅞	£32⅞	£20⅜	3,596	1.5	22.1
Tiger Oats		1112	—	1279	850	1,873	1.8	Φ
Tongaat-Hulett	†	990	—	1247	672	837.2	1.8	20.1

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service delivered by FT Extel, a member of the Financial Times Group.

Company classifications are based on those used for the FT-SE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR "Headline Earnings" formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- □ Indicates the most actively traded stocks. This includes UK stocks where transactions and prices are published continuously through the Stock Exchange Automated Quotation system (SEAQ) and non-UK stocks through the SEAQ International system.
- • Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Φ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ⚘ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
g Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
n Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
v P/e ratios are calculated under new ACT guidelines.
z Dividend yield includes a special payment
F Yield based on prospectus or other official estimates for 1994-95
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
R Forecast annualised yield, p/e based on prospectus or other official estimates.
W Pro forma figures.
Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

This service is available to companies whose shares are regularly traded in the United Kingdom for a fee of £1350 a year for each security shown, subject to the Editor's discretion

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

[illegible]

Royal Bk of Canada O/S Fd Mgrs Ltd - Contd.

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

Guinness Flight Select Funds Plc

Hambros Fund Managers (Ireland) Ltd

Henderson Crosthwaite Investment Co

LGT Asset Management Ltd

[illegible]

IRELAND (REGULATED)(**)

[illegible]

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

Citizens Investment Trust Mngt Company

Daiwa Europe Fund Managers Ireland Ltd

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

Ashburton Global Funds Ltd (1200)

Bank of Ireland Asset Mngmt (IOM) Ltd

CMI Fund Managers (IoM)

Mercury Fund Managers IoM Ltd

Quilter Intl Mngt (IoM) Ltd

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

John Govett Management - Contd.

INVESCO International Limited

Jupiter Tyndall (Jersey) Ltd

[illegible]

LUXEMBOURG (SIB RECOGNISED)

[illegible]

Eagle Star – Global Assets Fund (u)

Eliston Global SICAV (u)

[illegible]

Nikko Capital Management

Nomura Global Fund (u)

PRICOA Worldwide Inv Portfolio Sicav (u)

Rothschild Asset Management

[illegible]

LUXEMBOURG (REGULATED)(**)

[illegible]

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Credis Investment Funds - Contd.

Murray Universal, Sicav

CMI Insurance Co Ltd

Royal Life International

Buchanan Capital Management Ltd

Global Asset Management - Contd.

MBf Unit Trust Managers Limited

Regent Kingpin Capital Management Ltd

Van Kampen American Capital Navigator Funds

'WINTERTHUR' Fund Mngmt Co (Lux) SA

For World Bond Fund see Mercury Asset Management

World Trust Fund

	Selling Price	Buying Price	+ or -	Yield Gross
Shares NAV		$15.44	....	-

OTHER OFFSHORE FUNDS

OFFSHORE INSURANCES

AXA Equity & Law Intl Life Assce Co

Abtrust International Ltd

MANAGED FUNDS NOTES

LONDON STOCK EXCHANGE

MARKET REPORT

Good results and bid hopes drive shares higher

By Steve Thompson, UK Stock Market Editor

A big bounce in the financial stocks, plus the knock-on effect of strong US equity and bond markets, saw shares in London make rapid progress yesterday.

The stronger tone in US Treasury bonds reversed an early slightly easier trend in gilts, which also contributed to the much better feeling around the UK equity market.

The FT-SE 100 index comfortably regained the 3,650 level surrendered last Friday, and closed in very good heart. Second-liners, meanwhile, gave another good performance, with the FT-SE Mid 250 index finishing the day up 17.3 at 4,244.5.

A fresh burst of actual and rumoured takeover news added to the general air of optimism, as did a long list of generally encouraging corporate trading statements.

Dealers said they expected London to continue to gain ground as long as the US bond market held steady. "With Wall Street in good shape, we should be fine," said the head trader at one of the UK securities houses.

He warned, however, that there is plenty of room for upsets in the market this week from a long list of economic data due from the US, the UK, France and Germany.

On the domestic front, tomorrow brings retail sales numbers and M4 money supply numbers, while February's inflation figures are due on Thursday. German M3 money supply figures are scheduled for release on Wednesday; European markets reacted extremely nervously late last week to rumours that the figures could be much worse than previously thought.

London made a bright start to the day, with an initial 2-point gain in the Footsie equating to a rise of nearly 14, after allowing for almost 12 points of ex-dividend among the constituents.

But a mini-wave of bid speculation and news, plus the boost from Wall Street, saw the index move up a gear and hit a session's peak of 3,670.2, up 25.4, before coming off the top at the close.

The Dow Jones Industrial Average galloped ahead from the outset, rising more than 40 points, and had posted a 54-point improvement at 6pm London time.

Banks and insurances provided eight out of the top 10 Footsie performers, with dealers pointing out that the banks had underperformed the market by 6 per cent last week and were due for a rally. Lloyds TSB, badly hit by worries about the mortgage price war, climbed more than 4 per cent, while the composite insurances drew strength from more settled bond markets.

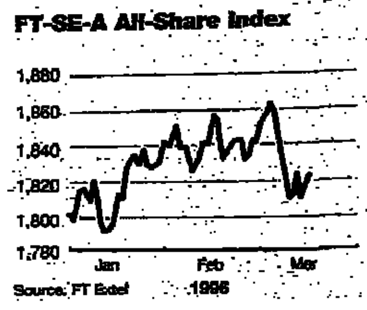
The takeover/merger speculation in Cable and Wireless boiled up again, but cooled in midsession after the group denied that any further talks had taken place.

The FT-SE Mid 250 was given a lift by a 33 per cent surge in Unitech, as the market braced itself for a bid of around 650p to 670p a share from Siebe.

BAT Industries was the Footsie's most heavily traded stock and endured a choppy session after the group hosted a meeting of analysts and institutional shareholders.

Turnover in equities at the 6pm reading amounted to 576.1m shares. The value of customer business on Friday was put at £1.7bn.

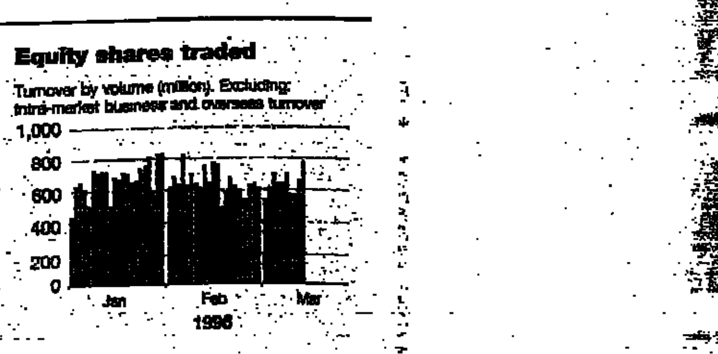
FT-SE-A All-Share Index



Source: FT Extel

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FT-SE 100	3669.6	+24.8
FT-SE Mid 250	4244.5	+17.3
FT-SE-A 350	1844.2	+11.4
FT-SE-A All-Share	1823.79	+10.61
FT-SE-A All-Share yield	3.85	3.87

FT Ordinary index	2743.8	+12.4
FT-SE-A Non Fins p/e	18.73	16.91
FT-SE100 Fut Jun	3662	+33
10 yr Gilt yield	8.10	8.12
Long gilt/equity yld ratio:	2.20	2.19

Best performing sectors

1 Banks: Retail +2.4
2 Financials +1.7
3 Banks: Merchant +1.3
4 Telecommunications +1.2
5 Property +1.1

Worst performing sectors

1 Tobacco -2.5
2 Leisure & Hotels -0.2
3 Electronic & Elec -0.2
4 Building & Cons -0.2
5 Pharmaceuticals -0.1

Insurers spring forward

Composite insurers had a spring in their step as Credit Lyonnais Laing took a more sunny view of the sector's prospects.

The broker has been downbeat on the stocks for several months but now feels they have been hit hard enough.

Analyst Mr David Hudson commented: "The sector is now on a 50 per cent yield premium to the market – it has only hit that level twice in the past 25 years and both times the industry was in crisis."

Mr Hudson has put out a straight buy recommendation on Commercial Union, the preferred group for most analysts because of its exposure to a more healthy life insurance market. And he has moved to a hold on Royal Insurance.

Also, relief seeped into the sector from more buoyant UK and US bond markets, to which the composites are exposed. CU rose 8½ to 572p, Royal 10 to 356p, General Accident 8½ to 622p and Guardian Royal Exchange 6 to 232p.

Siebe slides

Leading engineer Siebe crashed to the bottom end of the Footsie rankings as concern about a possible issue of new equity sparked profit-taking.

Late on Friday Siebe announced the purchase of a 25 per cent stake in electronics group Unitech and left the door open to an outright offer. So far it has used cash, but analysts yesterday argued that some sort of paper mix might eventually be needed if Siebe were to go ahead with a full takeover.

Siebe shares fell 18 to 826p, having been a strong mover lately. The stock has outpaced the market by 6 per cent over the past month.

Unitech, in contrast, powered ahead by more than a third, closing 173p higher at a new peak of 688p. City bets on the takeout price are bunched around the 650p to 670p levels.

Siebe acquired its Unitech stake from Swiss utility Elektrowatt. The utility has 42 per cent of UK components supplier Eurodis Electron. The latter added 11 at 295p.

Glynwed International climbed 13 to 351p following an optimistic trading statement and some modest broker upgrades. BZW moved up by £3m to £105m for 1996.

Argos downgrade

Shares in retailing group Argos eased 3½ to 638p as analysts downgraded full-year profits expectations after the company announced a 42p special dividend and share consolidation.

Brokers moved to reduce current year profits forecasts to reflect the impact of the special dividend. The list of downgrades included that of BZW, which cut its forecast by £6.5m to £133.5m and also downgraded its recommendation from "buy" to "hold".

Mr Tony Shiret at BZW said: "Paying a special dividend makes it less likely that the company will be making any sizeable acquisitions in the near future."

Troubled tobacco group BAT Industries failed to shrug off worries about its US operations.

The shares were down 5, as the company began its briefing on the implications of a class action settlement by Liggett, the maker of Chesterfield cigarettes. However, the fall included the effect of the stock going ex a 14.75p net dividend.

BAT told analysts that US trading would not be adversely affected. Also, Kleinwort Benson included BAT as one of its key income plays. The broker said that the company's overseas earnings and foreign income dividend made it a good defensive investment under a Labour government. And it believes the Liggett worries are overdone.

However, nervousness increased in the afternoon and seemed to be emanating from the US, where domestic tobacco groups were also talking about the relevance of the Liggett decision.

By the close, the shares were down an unadjusted 12 to 488p. Volume continued to be unusually heavy, although the closing turnover of 32m shares primarily reflected a block of 26m traded between two market-makers at 493p a share.

Extensive weekend press coverage kept the takeover pot bubbling at Cable and Wireless, hoisting the shares to a 26-month high in above average volume.

The shares have been a strong market since news of the attempted reverse takeover of telecoms giant BT broke at the start of last week. They surged a further 9½ to 485p yesterday, against 430p at the end of January.

Perhaps the main nugget to emerge from the Sunday newspapers was the suggestion that BT and C&W were far closer on price than most analysts had hitherto suspected. BT closed 4 better at 351½p.

Nynex CableComms added 4 at 101p as a series of meetings with institutional investors got under way. The cable group is apparently upbeat on the trading outlook.

The surprise statement that Southern, of the US, is to offload 50 per cent of South Western Electricity pitched some cold water on to the bid hopes within the sector.

Not only could some £400m to £500m of appetite be soaked up but some potential bidders could be removed. "One or two of the names in the frame for buying a rec – such as Tractebel, of Belgium – could be satiated by buying 50 per cent of SWEB," said Mr Matthew Siebert of ABN Amro Hoare Govett.

The potential bid targets in the sector are East Midlands, a penny off at 597p, London, up 2 at 729p, Northern, 3 ahead at 639p, and Yorkshire, 6 higher at 785p.

Among leisure issues, Rank Organisation hit an all-time high as the shares rose 5 to 501p. Dealers believe that Rank will be one of the biggest beneficiaries of the proposed changes to UK gaming regulations. They also said recent management changes at the company should help boost its prospects. However, volume in the stock remained light.

Among properties, a better than expected improvement in net asset value (nav) per share from Hammerson, the UK's fourth largest property group, cheered the market. The shares hardened 6 to 342p.

Bid talk continued to surround spirits group Allied Domecq and the shares firmed 10½ to 491p in trade of 1.6m.

Housebuilder Wilson Bowden dropped 14 to 405p following a cautious post-results meeting with analysts. The group's 1995 figures were broadly on City targets but analysts said the tone of the meeting was distinctly downbeat.

Interim results from building materials group Polypipe disappointed and a number of brokers trimmed profits forecasts for this year. BZW came back £3m to £27.5m, and the shares closed off 4 at 179p.

The continuing results season purred along smoothly yesterday, with Pearson, which owns the Financial Times, gaining 7 at 664p after a 10 per cent dividend rise and some healthy profits thanks to the bonus from the sale of its BSkyB stake.

Bunzl, the paper and packaging group, moved ahead 8 to 209p. Analysts raised current year forecasts to between £115m and £119m.

Electrical equipment group Rainford tumbled 92 to 282p following a profits warning. Electronics and plastics components maker Stadium gained 10 at 136p. The shares were placed last Monday at 120p.

MARKET REPORTERS:
Peter John, Joel Kibazo, Jeffrey Brown.

FINANCIAL TIMES EQUITY INDICES

	Mar 18	Mar 15	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
Ordinary Share	2743.8	2731.4	2758.2	2736.5	2729.9	2381.3	2807.9	2238.3
Ord. div. yield	3.96	3.97	3.82	3.95	3.96	4.45	4.73	3.76
P/E ratio net	16.49	16.43	16.81	16.50	16.46	16.51	21.33	15.35
P/E ratio nil	16.17	16.11	16.28	16.15	16.13	16.2	22.21	15.17

Ordinary Share index since compilation: high 2768.2 18/01/96; low 49.4 26/06/40. Base Date: 1/7/35.

Ordinary Share hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2732.9	2734.7	2736.3	2736.5	2734.5	2735.0	2738.4	2741.8	2742.0	2743.9	2732.0

	Mar 18	Mar 15	Mar 14	Mar 13	Mar 12	Yr ago
SEAQ bargains	37,132	35,135	36,635	35,065	35,802	30,953
Equity turnover (£m)†	-	1704.2	2400.0	1951.7	1841.5	1772.9
Equity bargains†	-	39,335	42,182	39,842	40,574	43,811
Shares traded (ml)†	-	596.2	778.4	666.1	572.3	729.2

†Excluding intra-market business and overseas turnover.

	Mar 18	Mar 15	Mar 14	Mar 13	Mar 12	Yr ago	*High	*Low
FT-SE AIM	974.90	967.61	968.33	967.70	969.39	-	1084.82	965.68

*For 1995/96.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	740	Total Highs	110	Total contracts	22,916
Total Falls	479	Total Lows	35	Calls	10,927
Same	1,556			Puts	11,889

Mar. 18*Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

FT-SE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	3637.0	3662.0	+33.0	3668.0	3635.0	7697	63057
Sep	3663.0	3676.0	+34.0	3663.0	3663.0	50	2363

FT-SE MID 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	-	4255.0	+17.0	-	-	0	3422

FT-SE 100 INDEX OPTION (LIFFE) (*3663) £10 per full index point

	3500 C	3500 P	3550 C	3550 P	3600 C	3600 P	3650 C	3650 P	3700 C	3700 P	3750 C	3750 P	3800 C	3800 P	3850 C	3850 P
Apr	169	15	129½	23½	91	39	59	57	36	83½	19	119	9½	157½	3½	203½
May	189½	32½	153	45½	119½	62	89½	81½	65	107½	43	136½	28	171½	17	211½
Jun	209	49½	172	61	142	79	108½	97½	83½	122½	60	148½	42½	182	27½	218
Jul	227½	56½	192½	70½	162½	88½	133½	110	110½	137½	89	166½	67½	196	50½	230
Dec†	290½	95½			227	129½			174	176			126	229		

Calls 1,650 Puts 2,022

EURO STYLE FT-SE 100 INDEX OPTION (LIFFE) £10 per full index point

	3475 C	3475 P	3525 C	3525 P	3575 C	3575 P	3625 C	3625 P	3675 C	3675 P	3725 C	3725 P	3775 C	3775 P	3825 C	3825 P
Apr	188	11½	145½	19	108½	32	75	48	48	71	27	99½	13½	136	6½	177½
May	208½	27	169½	37½	133½	51	101	68½	73½	90	50½	118½	32½	148½	19½	185
Jun	229½	45½	193½	58½	159	73½	127	90½	96½	109½	70½	132½	50	161	34½	195
Sep			249	91½			172½	121½			118½	164			79½	222
Dec†			279	105			220½	142			169	186½			125½	238½

Calls 845 Puts 2,284 * Underlying index value. Premiums shown are based on settlement prices.
† Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
-	F.P.	52.2	527	498	BZW Eq (Brmda)	522	+5	-	-	-	-
-	F.P.	1.55	2	2	†Capital & Wstm	2		-	-	-	-
-	F.P.	0.07	5½	3	Clubhaus Wts	3	-¼	-	-	-	-
12	F.P.	55.0	16½	14	†Freepages	15		v-	-	-	-
-	F.P.	33.3	143	108	†IOC Intl	136	-5	-	-	-	-
100	F.P.	22.8	52	25	Life Offices PP	52		-	-	-	-
-	F.P.	64.3	24½	20	M & G Equity Cap	21½		-	-	-	-
-	F.P.	5.17	90	88	M & G Equity Div	90		-	-	-	-
-	F.P.	64.1	43	42	M & G Equity Inc	42½		-	-	-	-
145	F.P.	108.4	185	145	MacDonald Hotels	185	+4	RWv4.0	2.3	2.7	20.1
-	F.P.	194.8	250	241	Schroder UK G Uts	243½	+1	-	-	-	-
120	F.P.	37.5	136	123	Stadium Group	136	+10	Lv3.8	3.1	3.5	11.4
180	F.P.	108.5	188	175	Streamline	175		Wv7.7	1.7	5.5	13.2
185	F.P.	108.3	231	218	Visual Action	231		Rv4.7	2.9	2.5	16.9

† Alternative Investment Market. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Mar 18	% chg on day	Mar 14	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (33)	2265.25	-0.4	2273.68	1876.31	1.46	-	2529.73	1722.93
Regional indices								
Africa (16)	3129.31	-0.6	3148.76	2790.05	2.70	36.90	3553.88	2272.74
Australasia (5)	2611.88	+1.4	2576.62	2164.17	2.42	39.08	2927.34	1986.82
North America (12)	1967.43	-0.5	1978.00	1568.00	0.69	59.35	2186.39	1488.94

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FT - SE Actuaries Share Indices — The UK Series

	Mar 18	Day's chge%	Mar 15	Mar 14	Mar 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FT-SE 100	3669.6	+0.7	3644.8	3681.8	3640.3	3124.2	4.04	2.14	14.48	38.63	1482.27
FT-SE Mid 250	4244.5	+0.4	4227.2	4232.9	4229.9	3391.0	3.48	1.72	20.83	41.65	1688.55
FT-SE Mid 250 ex Inv Trusts	4275.9	+0.4	4258.4	4264.6	4261.7	3398.0	3.60	1.77	19.63	44.55	1703.59
FT-SE-A 350	1844.2	+0.6	1832.8	1847.9	1831.3	1548.6	3.92	2.06	15.52	19.13	1523.61
FT-SE-A 350 Higher Yield	1802.2	+0.5	1793.3	1814.1	1794.9	1563.0	5.14	1.91	12.74	21.75	1237.40
FT-SE-A 350 Lower Yield	1893.6	+0.7	1879.7	1888.7	1875.0	1533.9	2.77	2.31	19.50	16.62	1304.37
FT-SE SmallCap	2070.31	+0.2	2066.92	2064.05	2058.33	1689.24	3.06	1.80	22.71	8.96	1681.10
FT-SE SmallCap ex Inv Trusts	2057.31	+0.2	2054.16	2051.49	2046.92	1687.57	3.26	1.88	20.37	8.60	1679.34
FT-SE-A ALL-SHARE	1823.79	+0.6	1813.18	1826.73	1811.24	1527.85	3.85	2.04	15.92	18.06	1530.27

FT-SE Actuaries All-Share

	Mar 18	Day's chge%	Mar 15	Mar 14	Mar 13	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(24)	3331.89	+0.9	3302.67	3296.60	3264.94	2691.17	3.90	1.73	18.50	22.56	1411.83
12 Extractive Industries(6)	4188.46	+0.8	4156.65	4165.05	4147.32	3559.15	3.80	2.29	13.76	85.48	1225.66
15 Oil, Integrated(3)	3369.02	+0.9	3337.71	3331.37	3305.98	2700.98	4.10	1.63	18.66	16.24	1460.52
16 Oil Exploration & Prod(15)	2372.76	+0.6	2358.62	2338.84	2248.84	1874.89	2.17	1.39	41.37	0.00	1408.39
20 GEN INDUSTRIALS(276)	2092.59	+0.2	2078.95	2081.53	2084.89	1826.50	4.03	1.87	16.55	10.55	1124.00
21 Building & Construction(34)	1129.45	-0.2	1131.71	1132.69	1132.10	948.61	3.54	2.03	17.44	2.38	932.56
22 Building Matls & Merchs(29)	1875.45	+0.3	1869.24	1883.73	1887.80	1743.81	3.99	2.00	15.68	0.61	931.07
23 Chemicals(24)	2554.37	......	2553.39	2563.02	2558.76	2181.06	3.89	1.99	16.11	25.74	1201.72
24 Diversified Industrials(21)	1807.16	+0.6	1796.34	1808.17	1773.17	1788.55	5.60	1.50	14.87	13.36	995.51
25 Electronic & Elect Equip(38)	2347.92	-0.2	2353.40	2350.06	2308.12	1921.34	3.07	1.82	22.38	5.81	1207.58
26 Engineering(70)	2362.18	......	2363.21	2352.04	2332.22	1782.13	3.22	2.41	16.13	9.70	1419.84
27 Engineering, Vehicles(13)	2774.58	-0.2	2781.14	2759.48	2758.36	2133.97	3.81	1.66	19.83	24.93	1427.45
28 Paper, Pckg & Printing(26)	2712.74	+0.8	2692.42	2696.61	2699.36	2753.56	3.74	2.03	16.46	12.80	1118.04
29 Textiles & Apparel(19)	1477.46	+0.1	1476.71	1475.26	1480.73	1427.59	4.74	1.64	16.07	7.42	890.55
30 CONSUMER GOODS(81)	3452.10	-0.1	3455.14	3506.13	3453.17	2923.70	4.05	1.87	16.49	50.92	1271.06
32 Alcoholic Beverages(8)	2782.79	+1.0	2754.10	2788.70	2765.82	2580.97	4.37	1.67	17.14	28.48	934.60
33 Food Producers(23)	2540.58	+0.1	2538.57	2548.39	2541.93	2404.80	4.22	1.75	16.95	16.80	1134.20
34 Household Goods(15)	2560.14	+0.5	2546.60	2520.26	2436.10	2452.38	3.87	2.40	13.46	3.68	962.60
36 Health Care(20)	1918.91	+0.2	1915.90	1926.69	1924.67	1623.29	2.72	1.81	25.32	5.11	1155.13
37 Pharmaceuticals(13)	4835.85	-0.1	4840.13	4936.08	4824.26	3759.03	3.48	1.94	18.55	81.77	1642.52
38 Tobacco(1)	4129.55	-2.5	4235.44	4358.27	4273.56	3500.95	6.15	2.03	9.98	156.18	1037.31
40 SERVICES(253)	2351.11	+0.4	2342.28	2361.18	2350.54	1892.54	2.98	2.09	20.10	17.11	1213.80
41 Distributors(32)	2618.84	+0.6	2603.23	2602.48	2625.42	2294.41	3.75	1.84	18.12	7.72	955.93
42 Leisure & Hotels(23)	2957.77	-0.2	2963.55	2965.53	2913.07	2100.30	2.83	2.15	20.58	117.64	1580.05
43 Media(46)	3897.74	+0.3	3885.45	3920.61	3889.11	2794.04	2.22	2.05	27.52	27.30	1405.12
44 Retailers, Food(15)	1876.23	+0.2	1872.76	1899.07	1899.48	1866.89	3.90	2.40	13.35	3.01	1176.67
45 Retailers, General(43)	1954.08	+0.4	1945.81	1952.87	1948.76	1573.10	3.05	2.21	18.53	5.78	1104.88
47 Breweries, Pubs & Rest.(24)	2951.00	+1.1	2918.43	2959.05	2968.53	2142.70	3.35	2.08	17.93	15.93	1407.23
48 Support Services(49)	2093.55	+0.4	2085.77	2096.54	2091.25	1486.04	2.33	2.52	21.32	4.01	1320.02
49 Transport(21)	2369.91	+0.3	2362.89	2386.16	2374.87	2199.39	3.85	1.41	24.28	6.84	976.11
60 UTILITIES(33)	2446.14	+0.9	2424.89	2446.41	2440.83	2260.31	5.07	2.06	11.95	35.13	1038.02
62 Electricity(12)	2695.35	+0.9	2670.44	2684.46	2687.94	2118.73	5.15	2.60	9.34	137.11	1319.80
64 Gas Distribution(2)	1536.07	......	1536.07	1553.05	1549.85	1950.37	7.80	1.37	11.71	0.00	770.67
66 Telecommunications(7)	2029.08	+1.2	2004.97	2024.42	2018.59	1986.46	4.16	1.78	17.10	0.15	918.04
68 Water(12)	2152.62	+0.6	2140.06	2163.82	2149.07	1765.21	5.67	2.59	8.50	3.61	1167.34
69 NON-FINANCIALS(667)	1944.77	+0.4	1937.82	1950.98	1935.64	1646.95	3.85	1.94	16.73	17.98	1464.06
70 FINANCIALS(108)	2792.38	+1.7	2745.45	2779.23	2743.84	2216.03	4.21	2.57	11.54	39.82	1195.43
71 Banks, Retail(8)	3874.06	+2.4	3781.67	3844.65	3768.72	2929.84	4.00	2.83	11.06	70.15	1263.01
72 Banks, Merchant(6)	3408.33	+1.3	3363.23	3386.45	3445.02	3023.16	2.87	2.33	18.69	4.52	1069.85
73 Insurance(24)	1357.18	+1.0	1343.67	1367.58	1342.46	1228.41	5.76	3.07	7.08	30.89	1016.90
74 Life Assurance(6)	3530.44	+0.2	3522.71	3538.71	3534.20	2591.97	4.18	2.12	14.09	4.31	1440.07
77 Other Financial(23)	2491.91	+0.2	2485.86	2491.23	2492.44	1854.07	3.70	1.88	17.90	19.90	1408.20
79 Property(41)	1436.16	+1.1	1420.63	1420.08	1425.48	1383.48	4.37	1.30	21.98	4.11	873.43
80 INVESTMENT TRUSTS(126)	3070.38	+0.4	3059.33	3059.88	3052.48	2593.32	2.21	1.07	52.97	11.69	1066.61
89 FT-SE-A ALL-SHARE(901)	1823.79	+0.6	1813.18	1826.73	1811.24	1527.85	3.85	2.04	15.92	18.06	1530.27
FT-SE-A Fledgling	1158.42	+0.3	1155.21	1152.95	1149.53	949.21	2.94	2.19	19.37	5.46	1202.48
FT-SE-A Fledgling ex Inv Trusts	1163.02	+0.3	1159.67	1157.93	1154.63	946.60	3.20	2.37	16.49	5.65	1206.53

Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FT-SE 100	3647.8	3651.8	3653.0	3652.5	3652.7	3653.2	3658.7	3662.8	3663.5	3670.2	3647.4
FT-SE Mid 250	4229.2	4231.0	4232.3	4238.0	4238.4	4239.3	4240.3	4243.5	4244.0	4244.5	4229.2
FT-SE-A 350	1834.2	1835.9	1836.5	1836.7	1836.9	1837.2	1839.5	1841.4	1841.7	1844.4	1834.1

Time of FT-SE 100 Day's high: 4:27 PM Day's low: 8:33 AM. FT-SE 100 1996 High: 3781.3 (02/02/96) Low: 2954.2 (23/01/96).

FT-SE Actuaries 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	1128.6	1128.6	1128.6	1126.1	1127.1	1127.2	1127.7	1127.8	1127.0	1127.0	1133.3	-6.3
Pharmaceuticls	4740.5	4750.0	4772.9	4763.2	4763.2	4764.8	4768.7	4768.7	4775.6	4782.1	4786.3	-4.2
Water	2134.1	2132.8	2135.3	2141.5	2143.8	2143.5	2142.4	2145.5	2145.6	2145.2	2132.4	12.8
Banks, Retail	3846.2	3861.9	3860.2	3861.9	3869.5	3867.8	3887.3	3898.9	3899.1	3923.5	3829.9	93.6

Additional information on the FT-SE Actuaries Share Indices is published in Saturday issues.
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TRADING VOLUME

Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	236	414	+¼
ASDA Group†	2,900	103¼	+½
Abbey National†	3,600	650½	+12
Albert Fisher	311	46	
Allied Domecq†	1,600	491	+10½
Anglian Water	196	583	+4
Argos†	555	638	-2½
Argyll Group†	661	309	-1½
Arjo Wiggins	463	202xd	+4½
Assoc. Brit. Foods†	132	404	+½
Assoc. Brit. Ports	96	301	+2

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Mar 18 / Sch)

BELGIUM/LUXEMBOURG (Mar 18 / Frs.)

CZECH REP (Mar 18 / Koruna)

DENMARK (Mar 18 / Kr)

FINLAND (Mar 18 / Mks)

FRANCE (Mar 18 / Frs.)

GERMANY (Mar 18 / Dm.)

GREECE (Mar 18 / Drachma)

ITALY (Mar 18 / Lire)

NETHERLANDS (Mar 18 / Fls.)

NORWAY (Mar 18 / Kroner)

POLAND (Mar 18 / Zloty)

PORTUGAL (Mar 18 / Escudo)

SPAIN (Mar 18 / Pts.)

SWEDEN (Mar 18 / Kronor)

SWITZERLAND (Mar 18 / Frs.)

TURKEY (Mar 18 / Tk Lira)

PACIFIC

JAPAN (Mar 18 / Yen)

HONG KONG (Mar 18 / H.K.$)

INDONESIA (Mar 18 / Rupiah)

MALAYSIA (Mar 18 / MYR)

NEW ZEALAND (Mar 18 / NZ $)

SINGAPORE (Mar 18 / S$)

AUSTRALIA (Mar 18 / Aust$)

SOUTH KOREA (Mar 18 / Won)

		+/-	High	Low	Yld	P/E
HyEngC	37,000	+300	42,140	29,333	0.1	—
KorEP	29,600	-300	33,300	23,200	1.7	—
KFstBk	7,000	-220	10,800	6,250	...	—
KMTele	836,000	+14,000	[illegible]	345,000	...	—
LG Ele	21,000	—	33,458	19,900	1.4	—
PohgSt	54,400	+400	76,000	46,700	1.2	—
SamEc	88,800xr	+2,300	128,172	[illegible]	1.1	—
SamgHI	15,600	-300	32,500	14,800	3.2	—
Yukong	25,100	-300	38,353	22,600	2.4	—

TAIWAN (Mar 18 / TW $)

CL Ins	120.50	...	169	107	1.2	...
CH Bnk	103.50	-.50	196	84.50	1.0	—
ChiDev	77.50	+.50	95.25	68.50	...	—
ChSt	20.20	+.10	33.50	17.90	7.3	—
FrstBk	107	—	189	84	0.9	—
NYPstc	42.30	+.10	58.25	38	2.7	—
ShK LI	60.50	...	89.25	56.75	2.5	—
TatSed	73	+1	126	55.50	...	—

THAILAND (Mar 18 / Baht)

AdvInf	474	—	510	202	1.1	—
BgkBnk	328xd	+6	366	193	1.7	—
BgkLnd	33.75	...	62.50	28.50	1.5	—
DhSiam	170	+4	200	75.50	...	...
FinOne	141xd	+1	176	99	2.1	—
KrThBk	114	+1	147	86.50	...	...
LndHou	414	+4	656	300	1.2	—
PhThan	234	-2	388	138	—	—
SiamCm	1,222	+6	1,768	1,186	1.6	...
SiamCi	344	—	446	328	...	...
SiamCB	386	+12	430	181	2.3	—
TeleAs	69	...	99	57	...	...
ThaiFa	290	+2	300	173	1.9	—

AFRICA

SOUTH AFRICA (Mar 18 / Rand)

NORTH AMERICA

CANADA

TORONTO (Mar 18 / Can $)

4 pm close

MONTREAL (Mar 18 / Can $)

4 pm close

Prices supplied by Telekurs

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. Highs/Lows are based on data from Jan 1 1995. # Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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INDICES

	Mar 18	Mar 15	Mar 14	1995/96 High	1995/96 Low
Argentina					
General(29/12/77)	(u)	15715.55	15912.31	18191.56 31/1/96	8831.08 9/3/95
Australia					
All Ordinaries(1/1/80)	2234.6	2234.8	2210.8	2323.40 4/3/96	1823.30 8/2/95
All Mining(1/1/80)	1030.9	1031.8	1022.7	1069.30 4/3/96	795.30 8/2/95
Austria					
Credit Aktien(30/12/84)	364.44	362.05	364.12	385.42 2/1/95	328.50 27/10/95
Traded Index(2/1/91)	1042.93	1035.95	1039.05	1094.98 7/2/96	982.15 23/10/95
Belgium					
BEL20(1/1/91)	1662.59	1647.81	1700.31	1755.71 7/3/96	1271.53 9/3/95
Brazil					
Bovespa(29/12/83)	(u)	48525.0	48413.0	54189.00 2/2/96	21382.00 9/3/95
Canada					
Metals Minls♦(1975)	(u)	5394.95	5438.99	5438.99 14/3/96	3808.63 1/3/95
Composite♦(1975)	(u)	4953.60	4975.44	5059.69 14/2/96	3891.41 30/1/95
Portfolio§§(4/1/83)	(u)	2420.44†	2437.93	2486.57 8/2/96	1983.36 30/1/95
Chile					
IPSA Gen♥(31/12/80)	(u)	5488.50	5480.88	5363.10 11/7/95	4576.80 9/3/95
Denmark					
Copenhagen SE(3/1/83)	380.87	381.79	381.15	391.35 13/2/96	330.01 29/3/95
Finland					
HEX General(28/12/90)	1871.73	1856.44	1886.92	2332.22 14/9/95	1555.30 29/3/95
France					
SBF 250(31/12/90)	1348.02	1341.15	1344.94	1372.31 4/3/96	1154.41 13/3/95
CAC 40(31/12/87)	1965.02	1950.12	1982.41	2024.09 1/2/96	1721.14 23/10/95
Germany					
FAZ Aktien(31/12/58)	874.41	872.75	862.34	886.12 5/3/96	708.87 30/3/95
Commerzbank(1/12/53)	2533.4	2529.4	2500.8	2564.10 5/3/96	2019.79 30/3/95
DAX‡(30/12/87)	2463.16	2458.23	2426.48	2501.22 1/3/96	1910.96 28/3/95
Greece					
Athens SE(31/12/80)	991.27	1001.16	996.47	1017.96 4/3/96	787.15 16/3/95
Hong Kong					
Hang Seng(31/7/64)	10801.28	10557.58	10451.75	11594.99 16/2/96	6967.93 23/1/95
India					
BSE Sens.(1979)	3292.21	3343.27	3386.05	3932.09 2/1/95	2826.08 25/1/96
Indonesia					
Jakarta Comp.(10/8/82)	578.85	576.79	589.90	597.36 27/2/96	414.21 19/4/95
Ireland					
ISEQ Overall(4/1/88)	(c)	2346.98†	2334.75	2388.79 7/3/96	1813.59 23/1/95
Italy					
Banca Comm Ital(1972)	590.75	592.26	588.06	680.54 10/2/95	547.79 5/12/95
MIB General(2/1/95)	1002.0	1004.0	997.0	1082.00 9/2/95	982.00 15/1/96
Japan					
Nikkei 225(16/5/49)	20285.13	20190.85	19923.66	21118.30 8/2/96	14485.40 3/7/95
Nikkei 300(1/10/82)	291.91	290.40	286.68	307.98 5/1/96	222.28 13/6/95
Topix(4/1/68)	1558.79	1552.35	1533.89	1632.03 5/1/96	1193.16 13/6/95
2nd Section(4/1/68)	1971.51	1966.36	1962.78	2130.68 4/1/95	1441.90 13/6/95
Malaysia					
KLSE Comp.(4/4/86)	1115.72	1119.89	1109.00	1136.14 6/3/96	840.87 24/1/95
Mexico					
IPC(Nov 1978)	(u)	2844.10	2853.52	3101.92 2/2/96	1447.62 27/2/95
Netherland					
CBS TtlRtn Gen(End 83)	575.5	571.2	570.6	575.58 18/3/96	422.90 23/3/95
CBS All Shr(End 83)	348.4	345.8	345.5	348.40 18/3/96	285.20 23/3/95
New Zealand					
Cap. 40(1/7/86)	2121.60	2134.57	2090.27	2266.02 20/10/95	1801.43 5/1/95
Norway					
Oslo SE(Ind)(2/1/83)	1335.99	1328.39	1327.95	1336.99 18/3/96	1036.00 10/3/95
Philippines					
Manila Comp(2/1/85)	2858.49	2821.75	2783.63	2858.12 10/7/95	2196.48 20/11/95
Portugal					
BTA(1977)	2615.0	2612.0	2601.4	2611.60 9/1/95	2412.90 22/11/95
Singapore					
SES All-S'pore(2/4/75)	573.80	574.23	572.10	610.37 5/2/96	472.90 23/1/95
South Africa					
JSE Gold(28/9/78)	1752.4♥	1786.6	1796.3	2023.00 2/1/95	1250.20 30/10/95
JSE Ind.(28/9/78)	8235.0♥	8272.6	8271.4	8739.30 25/1/96	6222.00 31/1/95
South Korea					
Korea Comp Ex**(4/1/80)	854.46	856.46	844.43	1027.37 2/1/95	838.87 13/3/96
Spain					
Madrid SE(30/12/85)	330.22	327.50	328.49	345.87 1/3/96	264.08 23/3/95
Sweden					
AffarsvärldenGen(1/2/37)	1908.7	1875.0	1881.0	1908.70 18/3/96	1438.80 29/3/95
Switzerland					
Swiss Bk Ind(31/12/58)	1708.35	1699.78	1705.77	1715.70 7/3/96	1174.63 13/3/95
SBC General(1/4/87)	1220.14	1213.75	1219.13	1220.14 18/3/96	870.58 13/3/95
Taiwan					
Weighted Pr.**(30/6/66)	4941.42	4936.31	4851.65	7051.49 5/1/95	4503.37 14/8/95
Thailand					
Bangkok SET(30/4/75)	1277.01	1267.06	1263.98	1472.04 10/7/95	1135.89 16/3/95
Turkey					
Istanbul Comp.(Jan 1986)	65436.2	64181.8	63850.0	66328.20 6/3/95	24944.30 23/1/95
WORLD					
MS Capital Intl(1/1/70)	751.2*	748.3	745.3	781.10 23/2/96	598.21 23/1/95
CROSS-BORDER					
Eurotrack 100(26/10/90)	1592.22	1583.14	1580.06	1607.55 7/3/96	1222.41 13/3/95
Euro Top-100(26/6/90)	(u)	1387.80	1393.38	1418.84 1/3/96	1117.34 9/3/95
JCapel Dygns(31/12/88)	(u)	362.85	359.07	382.52 19/2/96	282.07 23/1/95
ING Brngs Emrg(7/1/92)	152.79	153.03	152.11	182.72 5/2/96	117.15 10/3/95

US INDICES

Dow Jones	Mar 15	Mar 14	Mar 13	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Industrials	5584.97	5586.06	5568.72	5642.42 (5/3/96)	3832.08 (30/1/95)	5642.42 (5/3/96)	41.22 (2/7/32)
Home Bonds	103.48	103.56	103.71	106.09 (14/2/96)	98.63 (3/1/95)	109.77 (18/10/93)	54.99 (1/10/81)
Transport	2135.29	2154.32	2117.87	2154.22 (14/3/96)	1473.19 (3/1/95)	2154.22 (14/3/96)	12.32 (8/7/32)
Utilities	211.92	212.90	212.05	234.00 (12/2/96)	183.03 (3/1/95)	268.46 (31/8/93)	10.50 (8/4/32)

DJ Ind. Day's high 5628.89 (5662.29) Low 5523.56 (5538.56) | (Theoretical♦)
Day's high 5594.37 (5629.77) Low 5551.01 (5568.72) (Actual♦)

Standard and Poors	Mar 15	Mar 14	Mar 13	1995/96 High	1995/96 Low	Since compilation High	Since compilation Low
Composite‡	641.43	640.87	638.55	661.45 (12/2/96)	459.11 (3/1/95)	661.45 (12/2/96)	4.40 (1/6/32)
Industrials♥	762.13	760.82	758.72	776.23 (22/2/96)	546.26 (3/1/95)	776.23 (22/2/96)	3.62 (21/6/32)
Financial	64.64	64.78	64.01	68.58 (5/3/96)	41.64 (3/1/95)	68.58 (5/3/96)	8.64 (1/10/74)
NYSE Comp.	343.39	343.40	341.86	351.70 (12/2/96)	250.73 (3/1/95)	351.70 (12/2/96)	4.46 (25/4/42)
Amex Mkt Val	561.51	561.78	560.77	570.31 (7/3/96)	433.12 (6/1/95)	570.31 (7/3/96)	29.31 (9/12/72)
NASDAQ Comp	1089.59	1091.07	1088.84	1117.79 (23/2/96)	743.58 (3/1/95)	1117.79 (23/2/96)	54.87 (31/10/72)

■ RATIOS

	Mar 15	Mar 8	Mar 1	Year ago
Dow Jones Ind. Div. Yield	2.15	2.18	2.15	2.69
	Mar 13	Mar 6	Feb 28	Year ago
S & P Ind. Div. yield	1.85	1.87	1.89	2.36
S & P Ind. P/E ratio	21.01	21.05	20.83	17.32

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Kmart	14,149,600	10¼	+¼
Micron	13,959,200	32⅝	+3⅝
WalMart	8,391,100	23¾	+¼
Philip Morris	7,539,300	95⅝	+2⅞
Merck	5,515,000	62⅜	+¼
AT&T	5,185,000	61¼	-⅞
Bay Network	5,088,300	37⅛	+2⅞
Gen Elec	4,751,700	75¾	+⅝
Lng Islnd	4,693,300	17	-⅛
McDnn Intl	4,238,200	18⅝	-⅛

■ TRADING ACTIVITY

● Volume (million)

	Mar 15	Mar 14	Mar 13
New York SE	529.960	494.429	411.835
Amex	20.875	22.936	19.554
NASDAQ	528.588	526.053	496.997
NYSE			
Issues Traded	3,114	3,104	3,112
Rises	1,077	1,441	1,523
Falls	1,247	901	883
Unchanged	790	762	706
New Highs	70	130	88
New Lows	27	31	22

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Mar	1954.0	1973.0	+21.0	1978.0	1949.0	18,019	34,494
Apr	1957.0	1976.5	+21.5	1980.0	1953.0	4,342	6,184
■ DAX							
Mar	2485.0	2483.5	+18.5	2486.5	2459.0	15,715	-
Jun	2479.0	2502.5	+19.5	2503.5	2478.5	43	-
■ OMX							
Mar	1490.00	1512.00	+32.0	1514.00	1485.00	6,131	18,753
Apr	1487.00	1506.25	+18.25	1506.25	1487.00	1,622	4,200
■ SOFFEX							
Mar	3551.0	3584.5	+32.0	3584.5	3543.5	4,520	16,263
Apr	3545.0	3569.0	-2.00	3553.0	3545.0	2	708

	Open	Latest	Change	High	Low	Est. vol.	Open int.
■ S&P 500							
Jun	647.00	654.50	+7.50	654.75	651.50	73,888	180,462
Sep	657.60	657.90	+5.30	660.00	657.30	191	4,498
■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Jun	20320.0	20390.0	+190.0	20400.0	20250.0	23,984	255,785
Sep	20350.0	20440.0	+90.0	20440.0	20350.0	1,062	11,440

Open interest figures for previous day.

** Sat Mar 16: Taiwan Weighted Price 4940.85; Korea Comp Ex 856.58. Base values of all indices are 100 except Australia All Ordinary and Mining - 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX - all 1,000; JSE Gold - 255.7; JSE 20 Industrials - 264.3; NYSE All Common - 50 and Standard and Poor's - 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Mar 18 - 2472.55 +14.56.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, March 18, 1996

	Stocks Traded	Closing Prices	Change on day
Mitsui Co	6.2m	910	+8
Shinko Electric	6.2m	830	-87
Ricoh Co	5.8m	1140	+20
Mitsubishi Hvy	5.5m	865	+12
Pacific Metals	5.4m	728	-39
Nissan Motor	5.3m	794	+1
Keisei Ele Ry	5.2m	1080	-30
Nippon Stl Corp	5.0m	338	-1
Toyota Motor	5.0m	2260	+10
Nissho Iwai	4.9m	519	+29

4 pm close March 18

NEW YORK STOCK EXCHANGE COMPOSITE PRICES

1995/96 High	Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
22⅛	12⅛	AAR	0.48	2.4	22	441	20⅝	20¼	20⅜	-⅛
48¼	35	AMP	1.00	2.3	22	3503	43¼	42⅛	43⅛	+½
93⅜	53⅜	AMR			38	7981	92	91	91	+¼
50½	36⅞	ASA	2.00	4.6	28	747	44	43½	43¾	-¼
44¾	30¾	AbbtL	0.96	2.4	19	17503	41½	40¼	40½	-½
18⅞	12	Abitibi Pr	0.40	2.7	7	579	14⅞	14⅝	14⅞	+⅛
31⅛	21	ABM Ind	0.70	2.3	18	31	u31⅛	30⅞	31	+⅛
17½	13⅛	Acptncetn			52	215	14¾	14⅝	14¾	+⅛
50⅛	21⅞	ACE Ltd	0.58	1.3	10	453	44⅛	43⅝	44	-⅛
9⅞	8⅛	ACM Gvt In x	0.90	9.4	8	528	9⅝	9½	9⅝	
7⅞	6½	ACM GvOpp x	0.66	8.9		608	7⅜	7⅛	7⅜	+¼
7½	5⅝	ACM Gvt Sp x	0.75	10.9		438	6⅞	6¾	6⅞	+⅛
9½	7¼	ACM Gvt Se x	0.90	10.3		1181	8⅞	8⅝	8¾	+⅛
9½	7⅝	ACM Man x	0.80	8.7		428	9⅜	9¼	9¼	-⅛
31¼	10¼	AcmeClv	0.52	1.7	7	498	30½	30¼	30⅜	
38¾	6⅛	Acme Elect			55	118	6⅝	6⅜	6⅝	+¼
34½	23¾	Acordia	0.72	2.3	16	128	31¼	30	31¼	+1¼
16¾	10⅛	Acuson			46	253	14¾	14½	14¾	+¼
19⅝	15⅝	Adams Exp	0.36	1.9	0	96	19⅛	19	19	-⅛
38⅞	16⅛	AdvMic			6	8595	18½	17¾	18⅛	+⅜
10¾	5	Advest Grp	0.16	1.7	9	85	9⅝	9⅜	9⅝	
27½	11⅝	Advo Inc	0.10	0.8	12	452	12	11⅞	12	+⅛
46¾	24.80	Aegon	1.29	2.9	16	175	43¾	43⅛	43¾	+¼
5⅞	3½	Aerfb			9	1273	5⅛	4⅞	5⅛	+¼
78¼	46¾	AetnaL	2.76	3.6	36	3936	78⅛	75⅛	76¼	+1

Continued on next page

NYSE COMPOSITE PRICES

4 pm close March 18

Continued from previous page

- X - Y - Z -

1995/96 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close	Chng. Prev. Close
52½	39¾	Xtra Corp	0.72	1.6	14	83	44⅞	44	44¼	
25¾	19½	Yankee Egy x	1.28	5.7	15	30	22¼	21⅞	22⅛	+⅛
49	34⅛	York Int	0.36	0.7	20	358	48¾	48	48⅛	
4½	2½	Zapata	0.14	4.3	5	100	3⅜	3¼	3¼	-⅛
12⅛	5⅞	ZeitnEl			3	968	7¼	7	7⅛	
24⅞	19⅜	Zenith Nat	1.00	4.2	65	101	23¾	23⅝	23¾	
7⅞	6⅛	Zenix Inc	0.72	10.3		91	7	6⅞	7	+⅛
18¼	12⅝	Zero	0.44	2.6	16	287	17	16⅝	16¾	-¼
26	16⅞	Zurn Ind	0.40	1.9	18	169	20¾	20	20⅝	+⅝
11½	10¼	Zweig Fund	1.12	10.2		210	11⅛	11	11	-⅛
9	7⅞	Zweig Totl x	0.84	9.6		242	8⅞	8¾	8¾	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1995. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.
d-new yearly low. P/E price-earnings ratio. sls-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.
‡ Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close March 18

AMEX COMPOSITE PRICES

4 pm close March 18

AMERICA

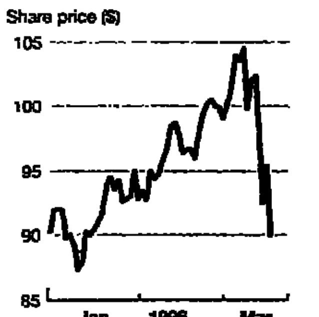
Technology sector leads US advance

Wall Street

Rising technology shares and a stronger bond market helped US equities climb in early trading yesterday, *writes Lisa Bransten in New York.*

By mid-morning the Dow Jones Industrial Average was up more than 50 points, thereby triggering trading restrictions which limit program buying. By 1 pm the index was ahead 46.25 at 5,631.22, the Standard & Poor's 500 had climbed 7.35 to 648.78 and the American Stock Exchange composite was 3.23 higher at 564.74. Volume on the New York SE came to 237m shares by midsession.

Philip Morris



Source: FT Extel

Technology shares continued to rebound from the sharp sell-off experienced early last week amid fears of slowing personal computer sales and oversupply in the semiconductor industry.

The Nasdaq composite had added 11.29 at 1,110.88 by 1 pm.

Microsoft, the largest company in the index, was up $2¾ at $105⅛. Oracle Systems advanced $1⅞ to $50¼ and America Online was $2⅞ stronger at $57⅛.

On the NYSE, IBM, a component of the Dow, advanced $3⅝ to $123¼.

But the gains at IBM were partially offset by another day of sharp retreat in Philip Morris, another of the 30 component companies in the index.

The largest tobacco concern in the US lost $5¼ at $90⅜ after the US Food and Drug Administration said a former scientist for Philip Morris was prepared to claim that the company knew that nicotine had a narcotic effect.

Shares in the company had tumbled, along with most of the large tobacco groups, since last week when the Liggett group agreed to settle its portion of several suits lodged against the country's biggest cigarette companies.

RJR Nabisco, the second largest tobacco company in the US, declined $1⅞ to $31⅞.

Canada

Toronto's attempt to follow New York was stopped short by gold and precious metals stocks; the weak gold bullion price left the sector index down by 12 per cent at midday, and the TSE 300 composite index rose just 3.14 points to 4,856.76 as volume declined from 36.9m shares to 31.8m.

Among active stocks, Mitel Corp rose C$⅞ to C$8⅞ after it agreed to buy ABB Hafo, of Stockholm, from Asea Brown Boveri. Potash Corp of Saskatchewan, however, was off C$3⅞ at C$86¼ after Merrill Lynch cut its short-term rating from accumulate to neutral.

Mexico falls back

The US provided an early incentive for the region's markets, but by midsession **MEXICO CITY** had given up its morning gain. By midday the IPC index was off 2.64 points at 2,841.46, but turnover was below average.

SAO PAULO was awaiting the developments of a debate into parliamentary inquiries regarding the country's banking sector and pension reform.

Analysts said they hoped that President Fernando Henrique Cardoso, who had just returned from an official visit to the US and Japan, would succeed in avoiding pressure for a senate investigation into the banking sector. By noon the Bovespa index was up 540 or 1.1 per cent at 49,065. So far this month the index has fallen 2.1 per cent.

In **BUENOS AIRES**, the Merval index was ahead 5.50 points at 503.00 by midday.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1996	Start of 1996	Start of 1996
Austria	-2.31	-1.96	-0.27	+6.51	+5.29	+3.33
Belgium	-4.60	-1.80	+20.06	+0.35	-0.79	-2.63
Denmark	-0.95	-1.93	+14.28	+4.87	+3.83	+1.90
Finland	+2.60	+3.52	+4.32	+4.90	+0.30	-1.57
France	-0.89	+1.01	+14.89	+7.17	+5.60	+3.63
Germany	-0.56	+0.64	+20.06	+7.71	+6.42	+4.45
Ireland	-1.60	-0.21	+25.64	+2.95	+2.93	+1.03
Italy	-1.74	-2.28	-0.71	-1.96	+1.08	-0.80
Netherlands	+0.80	+1.55	+28.78	+6.48	+5.35	+3.40
Norway	+0.33	+1.56	+16.88	+4.77	+4.92	+2.97
Spain	+1.83	-2.61	+26.75	-2.36	+1.85	-0.23
Sweden	+2.06	+4.95	+30.94	+9.65	+9.18	+7.13
Switzerland	-0.17	+7.20	+42.20	+7.05	+5.43	+3.47
UK	-1.64	-2.88	+19.72	-0.52	-0.52	-2.37
EUROPE	-0.92	-0.01	+21.17	+3.57	+2.96	+1.07
Australia	-1.26	-3.10	+16.09	-0.18	+6.18	+4.21
Hong Kong	-5.28	-7.90	+22.23	+7.20	+9.24	+7.21
Japan	+0.75	-3.34	+18.06	-1.98	-2.72	-4.52
Malaysia	-0.67	+2.03	+15.12	+11.12	+13.17	+11.06
New Zealand	+1.18	+3.04	+7.05	-1.00	+5.48	+3.51
Singapore	-0.31	-4.89	+23.15	-6.18	+8.74	+6.72
Canada	+1.26	-1.59	+15.68	+5.01	+6.96	+4.97
USA	+1.28	-0.76	+30.34	+4.37	+6.35	+4.37
Mexico	+3.53	-4.20	+62.52	+3.11	+7.06	+5.06
South Africa	+1.18	-0.60	+25.91	+9.22	-3.22	+1.30
WORLD INDEX	+0.39	-1.40	+23.70	+2.82	+3.42	+1.60

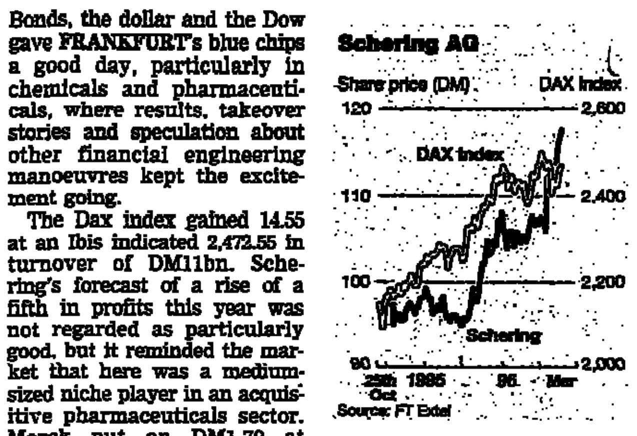
† Based on March 15 1996.

EUROPE

Frankfurt simmers, Stockholm greets Persson

Bonds, the dollar and the Dow gave **FRANKFURT**'s blue chips a good day, particularly in chemicals and pharmaceuticals, where results, takeover stories and speculation about other financial engineering manoeuvres kept the excitement going.

Schering AG



Source: FT Extel

The Dax index gained 14.55 at an Ibis indicated 2,472.55 in turnover of DM11bn. Schering's forecast of a rise of a fifth in profits this year was not regarded as particularly good, but it reminded the market that there was a medium-sized niche player in an acquisitive pharmaceuticals sector. Merck put on DM1.70 at DM65.40, and related stocks like Bayer, BASF and Degussa all added more than 2 per cent.

There were gains in Daimler and Volkswagen, and in steelmakers and engineers Preussag and Thyssen. But professionals were tempted to attribute this to general, rather than particular, influences.

The excitement on Friday in Asko and Kaufhof waned, the shares falling DM29 to DM929 and remaining flat at DM482.50 respectively. The "transfer value" of the merging retailers, based on accountants' valuations, indicated market prices of around DM1,314 and DM617 a share respectively.

STOCKHOLM jumped 1.8 per cent on the view that Mr Goran Persson, to be sworn in as prime minister on Thursday, would not deviate from the hard fiscal line that he initiated as finance minister. The Affärsvärlden general index rose 33.7 to 1,908.7, further encouraged by expectations that the Riksbank would ease monetary policy this week.

Bank and insurance stocks rallied 2.5 per cent, with S-E-Banken up SKr1.50 to SKr49.20. The recently weak construction sector rebounded 4.6 per cent, with Skanska gaining SKr13 at SKr207.

Investor, the industrial investment group, rose SKr8 to SKr267; it expected to price the global offering of Scania, the truck and bus maker, at a higher than expected SKr155 to SKr185 a share.

AMSTERDAM pushed itself to yet another record high, supported by foreign demand. The AEX index put on 4.64 at 524.82, with most of the rise in the final hour of trading.

Financials did well. Amev appreciating Fl 2.80 or 2.5 per cent to Fl 114.30, ING Fl 1.40 to Fl 114.90 and ABN Amro Fl 1.30 to Fl 80. Technology stocks were helped by US strength, Philips rising Fl 1.50 to Fl 66.70.

Nedlloyd receded Fl 1.40 to Fl 36.50 as further profits were taken following last week's sharp rise, and ahead of Thursday's 1995 results. Analysts expect net profits of some Fl 50m, against 1994's Fl 107m.

PARIS bided its time in advance of this week's 1995 company results. The CAC-40 index added 14.90 at 1,965.03, although the Association of French Analysts yesterday cut 1995 earnings per share forecasts for 150 major companies by an average of 5.7 per cent, following disappointment with a number of results already published.

Michelin, the tyre manufacturer, rose FFr4.50 to FFr239.10 ahead of today's 1995 figures; analysts were looking for net profits between FFr2.3bn to FFr2.9bn, compared with FFr1.3bn for 1994. Renault firmed FFr2.50 to FFr146.50 ahead of its 1995 results, also due today.

ZURICH took its lead from Wall Street and the SMI index closed 22.5 higher at 3,583.6.

In financials, Swiss Re rose SFr21 to SFr1,259 on a favourable response to the company's roadshow in the US.

Roche certificates gained SFr110 at SFr9,460 as investors turned their attention back to the stock. Bell, Switzerland's biggest meat processing and trading group, added SFr50 at SFr3,750 on plans for a 10-for-one share split.

Swissair moved ahead SFr40 to SFr1,158 as the company met financial analysts, while Schindler certificates climbed SFr68 to SFr1,305.

MILAN failed to find direction in the increasingly confused run-up to next month's general election, and the Comit index shed 1.51 to 590.75.

Technical recoveries were seen in Benetton and Olivetti after their sharp falls last week. Benetton picked up L197 at L16,301 and Olivetti L23.4 at L794.3. Goldman Sachs, which rated Olivetti a trading buy, continued to expect the group to return to profits in 1996, and subsequently to pay a dividend for the first time since 1990.

Goldman added that it had set an Olivetti target price of L1,250, after revising its valuation of Omnitel.

Telecom Italia rose L64 to L3,459 on expectations of improved 1995 results after the close, while Stet, L28 higher at L4,520, insisted that its privatisation was still on course.

BRUSSELS staged a partial recovery from Friday's sharp losses, with the market again driven by activity in Bel-20 index issues. The Bel-20 rose 14.74 to 1,662.59, partially reversing Friday's 52-point plunge. Shortly before the close of trade, the bourse authorities said they were launching an inquiry into whether banks had been unfairly manipulating the market by driving up the Bel-20 to hedge the launch of their equity-linked investment funds.

BUDAPEST struck another all-time high as investors took heart from the approval by the International Monetary Fund of a $387m standby loan, which had been agreed on Friday when the market had been closed for a public holiday.

The BUX index moved up 56.71 to 2,405.26, breaching the previous life high of 2,390.01 seen on March 6.

ATHENS fell back, with analysts suggesting that many institutional investors seemed to be liquidating their positions ahead of an IPO for OTE, the state telecom group, later this month.

The general index dipped 9.89 or 1 per cent to 991.27.

TEL AVIV, on Sunday, reacted sharply to the weekend news that February's consumer price index rose by a higher than expected 0.9 per cent, the Mishtanim index losing 4.72 or 2.3 per cent at 199.12. It did no better yesterday, closing another 0.38 down at 198.74.

ISTANBUL made selective gains which helped the composite index to a rise of 1,254.44 or 2 per cent to 65,436.28. Turnover shrank to TL14,850bn from Friday's TL20,650bn.

Brokers said that sentiment had been encouraged by the withdrawal of regulations which, due to come into effect on March 25, would have tightened the rules on daily sales, settlement and custody and would have stopped short selling.

FT-SE Actuaries Share Indices

Mar 18	THE EUROPEAN SERIES							
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FT-SE Eurotrack 100	1582.90	1583.96	1584.34	1585.87	1588.52	1586.00	1591.78	1592.22
FT-SE Eurotrack 200	1651.65	1651.82	1652.01	1653.22	1654.26	1655.39	1658.21	1661.08
	Mar 15	Mar 14	Mar 13	Mar 12	Mar 11			
FT-SE Eurotrack 100	1583.14	1580.06	1576.49	1572.85	1552.57			
FT-SE Eurotrack 200	1651.34	1653.04	1648.57	1643.53	1642.34			

Base value 1000 (26/10/90); High/day: 100 - 1593.02; 200 - 1661.67 Low/day: 100 - 1582.88 200 - 1650.78 † Partial.

Written and edited by William Cochrane, Michael Morgan and John Pitt

ASIA PACIFIC

Nikkei lifted by foreign buying, Taipei remains calm

Tokyo

Foreign and technical buying lifted share prices, and while profit-taking ahead of the fiscal year-end by domestic institutions eroded some of the gains, the Nikkei average closed moderately higher, *writes Emiko Terazono in Tokyo.*

The 225-share index rose 94.25 to 20,285.13, with a day's high of 20,352.30 thanks partly to a rise in Nikkei futures in Chicago on Friday, and a session's low of 20,223.74.

Volume totalled 375m shares, against 463m. The Topix index of all first section stocks gained 6.44 at 1,558.79 and the Nikkei 300 put on 1.51 at 291.91. Advances led falls by 622 to 425, with 163 issues unchanged.

In London the ISE/Nikkei 50 index was up 5.18 at 1,367.34.

Parliamentary deadlock over the housing loan liquidation scheme weighed on investor confidence. Some market participants indicated that they would remain on the sidelines until Sunday's by-election for an upper house seat in central Japan. The jusen, or housing loan, problem had become the central issue in the election campaign between candidates backed by the ruling coalition and opposition parties.

Foreign investors bought financials, steels and trading houses. Daiwa Bank moved up Y13 to Y743 and Sakura Bank Y10 to Y1,160. However, Industrial Bank of Japan fell Y20 to Y2,860 on domestic profit-taking and Dai-Ichi Kangyo Bank lost Y20 at Y2,020.

Trading houses were led by Nissho Iwai, which attracted buying on reports that it would step up its rationalisation efforts. Nissho rose Y29 to Y519, and Mitsui Y8 to Y910.

Shipbuilders gained ground on speculation that trust fund managers would start increasing their weighting in the new business year starting April. Mitsubishi Heavy Industries advanced Y12 to Y865.

Electric wire makers were sought due to hopes of firm demand in optical fibres. Sumitomo Electric Industries rose Y40 to Y1,370. Other high-technology stocks were bought by foreign investors, Ricoh gaining Y20 at Y1,140. Mitsumi Electric fell Y300 to Y1,650 on reports that the company's recurring profit for the current year ending September would decline by 65 per cent.

In Osaka, the OSE average added 119.88 at 21,385.38 in volume of 160.7m shares.

Roundup

The build-up of tension in the Taiwan Strait left **TAIPEI** unmoved, as investors heeded a call from the island's government to remain calm. The weighted index rose 0.57 to 4,941.42 in T$32.6bn turnover.

Brokers said the government stock fund, which bought stocks actively to support the market last week, was largely absent; most investors now felt that China was most unlikely to launch an attack, they said, in spite of a further round of military exercises.

BOMBAY declined 1.5 per cent, largely on sharp losses in ITC and Reliance.

ITC, which has a 7.1 per cent weighting in the index, was pressured by reports that the company had been asked to pay a Rs3.5bn deposit against excise dues; the stock slid Rs16 or 6.4 per cent to Rs235.

Reliance dropped Rs7.25 to Rs213.75 as speculators pulled prices lower in end-account trade on the National Stock Exchange.

The BSE-30 index shed 51.06 to 3,292.21 ahead of this week's expected announcement of a timetable for parliamentary elections.

HONG KONG ended modestly higher after fluctuating aimlessly in wary trade, with the day's government land auction failing to have an impact. The Hang Seng index rose 43.70 to 10,601.28 in turnover that dwindled to a weak HK$3.5bn, with the military tensions in the Taiwan Strait leaving the market fumbling for direction.

SINGAPORE investors remained nervous over poor corporate results, and the Straits Times Industrial index slipped 5.86 to 2,361.45. Property shares were weak after DBS Land's lower than expected results announced over the weekend. DBS was off 5 cents at S$5.00 after touching S$4.94.

Tractors Malaysia pressed 9.5 per cent ahead to a year's high at S$2.65 in heavy turnover, but dealers could not account for the activity.

SEOUL edged back into negative territory at the end of trade as investors remained sidelined, still waiting for the state-backed Stock Market Stabilisation Fund to make a move towards boosting the market. The composite index lost 2.12 at 854.46 in relatively light volume of 20.4m shares.

Electronic and telecommunications related shares showed some strength. Samsung Electronics gained Won2,300 at Won88,800 and Dacom climbed Won1,500 to Won116,500.

BANGKOK made a small gain in the absence of foreign buyers. The SET index rose 9.95 to 1,277.01 in moderate turnover of Bt6.7bn.

Among the most active issues, Shinawatra Computer and Communication topped the list and gained Bt24 at Bt672, while Thai Farmers Bank moved forward Bt3 to Bt189.

MANILA was worried by the tensions between China and Taiwan. The composite index eased 36.74 to 2,858.49. **JAKARTA** edged up on further buying of second line issues as well as Telkom, which rose Rp25 to Rp3,725. The composite index put on 2.07 at 578.86.

Astra fell Rp125 to Rp2,950 after the manufacturer of automotive parts reported a sharp drop in February car sales.

SYDNEY retreated in the afternoon to close the day barely changed as profit-taking eroded gains made during the morning.

The All Ordinaries index slipped a net 0.2 to 2,234.6.

S African golds out of favour

Johannesburg gold shares closed near their lowest levels of the day, drifting down in dull trade on a lack of interest and a slightly softer bullion price. Industrials were weaker in sympathy, lacking any impetus of their own.

The overall index finished 51.8 lower at 6,651.9, golds dipped 34.2 to 1,752.4 and industrials lost 37.6 at 8,235.0.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FT-SE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FT-SE International and Goldman Sachs in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	FRIDAY MARCH 15 1996: US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY MARCH 14 1996: US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX: 52 week High	52 week Low	Year ago (approx)
Australia (81)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Austria (24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Belgium (33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brazil (28)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Canada (101)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Denmark (33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Finland (24)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
France (99)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Germany (60)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Hong Kong (57)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ireland (16)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italy (59)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Japan (482)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Malaysia (107)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mexico (18)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherland (19)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New Zealand (13)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway (33)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Singapore (44)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
South Africa (45)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain (37)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden (46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland (38)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Thailand (46)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
United Kingdom (209)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
USA (631)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Americas (778)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe (726)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Nordic (136)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Basin (832)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Euro-Pacific (1558)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
North America (732)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Europe Ex. UK (521)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pacific Ex. Japan (350)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. US (1750)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. UK (2172)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
World Ex. Japan (1899)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
The World Index (2381)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ **Banking:** by Simon Davies

Bigger is better as rivalry intensifies

Recent results show the sector's resilience but consolidation is on the cards

Hong Kong's banks have been under siege. Deregulation has brought in increased competition at a time of collapsing property prices – a combination that led the rating agency Moody's Investor Services to say that the sector is on "its journey down". Nonetheless, predictions of the sector's demise look somewhat premature.

Competition in Hong Kong's oligopolistic banking sector has not been quite the boon to consumers that was expected. Interest rate deregulation has so far led to a fattening of banks' lending margins, because increased savings and lukewarm loan demand have meant that there is no fight on for deposits. The margin between prime lending rates and deposit rates is currently 53 basis points above its long-term average, boosted by the recent fall in interest rates.

More surprising has been the absence of any bruises from the latest fall in the Hong Kong property market. Around 42 per cent of bank lending is made directly to the property market, and both residential and commercial property prices have collapsed. Mr Stephen Li, head of research at Jardine Fleming, says: "There has been a 30 per cent fall in property prices, but no pick-up in defaults."

Provisions against non-performing loans remain at below 1 per cent, which might raise some concern. But Asia Equity, a regional stockbroker, estimates that even after the recent property market decline, mortgages outstanding are 62 per cent of the value of the underlying mortgaged assets.

The three most significant contributors to the well-being of Hong Kong's banks, US interest rates (the Hong Kong dollar is pegged to the US dollar), the property market and economic growth in Hong Kong and Southern China, are all pointing towards further recovery for the banking sector. ING Barings is forecasting 16 per cent earnings growth for the sector in 1995 and a similar figure for 1996.

Balance sheets are robust by world standards, and are getting stronger, since the banks are obliged to reveal their inner reserves – hidden profit reserves used to smooth earnings – during 1996. Banks are also being forced to disclose their capital adequacy ratios this year, and these also look conservative. For example, Bank of East Asia, which has one of the highest loans/deposit ratios and high exposure to both the property market and China, still has a capital adequacy ratio of 18.4 per cent, which must make it the envy of many western competitors.

> As 500 banks chase business, competition will take its toll

Many of the banks also have hidden assets in the form of investments in property and shares. Bank of East Asia estimates that if it had revalued its property portfolio last year, it would have shown a surplus of HK$3bn, while Hang Seng Bank has more than HK$4bn of paper profits on stock market investments. And mortgage lending has proven to be far less risky in the volatile Hong Kong market than in the UK and US. Standard Chartered says it has yet to make a loss on any Hong Kong mortgage.

Nonetheless, it is going to get tougher. In the mortgage market, competition has knocked 0.5 percentage points off the spread between mortgage rates and the prime rate – the benchmark for loans.

There has also been significant competition on arrangement fees. And as the property market shows signs of recovery, there is likely to be greater competition for deposits.

Hong Kong's banks are well placed to compete. Their costs as a percentage of income are far lower than in developed economies, helped by the fact that they own an average of between 50 and 80 per cent of the properties they use. Moreover, wage inflation is slowing and salaries account for around 60 per cent of overall costs.

The big banks are going to fare better. With 500 banks and deposit-taking companies fighting for business in Hong Kong, competition is bound to take its toll. But those banks with the largest branch networks will be in a stronger position to win deposits, particularly since the absence of deposit insurance favours the stronger banks.

Some consolidation in the banking sector looks inevitable in the face of competition and technology upgrades. Thus far, the only mergers have been sparked by bank collapses. The family holding structure of most banks means that hostile bids are unlikely. But as the handover to China approaches, some of the banking families may be persuaded to cash in Hong Kong assets. And, as Hong Kong becomes part of China, it will increasingly create opportunities for developing banking networks within southern China; opportunities that will only be available to the bigger banking groups.

Ms Carmel Wellso, banking analyst at ING Barings, says: "Hong Kong banking will become much more competitive, but as Hong Kong becomes part of China, the pie is going to become so much bigger."

■ **Banking in China:** by Simon Davies

Poised for a capitalist onslaught

It is a tantalising prospect for Hong Kong's banks. In neighbouring Guangdong Province alone, there are more than 65m of the wealthiest people in China, with 15 years of economic transformation under their belts and virtually no choice as to what to do with their hard-earned cash.

As Mr John Bond, chief executive of HSBC Holdings, the global group that is Hong Kong's biggest banker, says: "It would be an act of folly for us not to be investing as fast as we can in building up a network in China."

There is no doubt that the Chinese authorities have put banking reform at the top of their agenda, but there is a long way to go. Mr Stephen Li, head of research at Jardine Fleming Securities, says: "Chinese banks have never operated as commercial organisations. They have had no choice as to whom they lend."

Moreover, the Chinese authorities are unlikely to want to open the floodgates to foreign banks until domestic banks are capable of competing.

At present, Chinese banks are faced with negative lending margins – due to indexation of deposit rates, they are forced to pay out substantially higher interest to depositors than they receive from loans.

Four mainland banks have been turned into independent corporate entities, but they would not pose much competition for the more technologically advanced foreign banks.

Nonetheless, the Hong Kong banks are preparing for an onslaught. All the leading banks have established branches or opened representative offices in a number of the largest Chinese cities. At present, these are licensed only for dollar business, and the offices are used primarily to service Hong Kong clients based in China.

The private residential property market in China has also created lucrative opportunities for the banks. Bank of East Asia (BEA) has been the most aggressive of Hong Kong's banks in Chinese mortgage lending, although it still makes only Hong Kong dollar loans, generally with Hong Kong collateral.

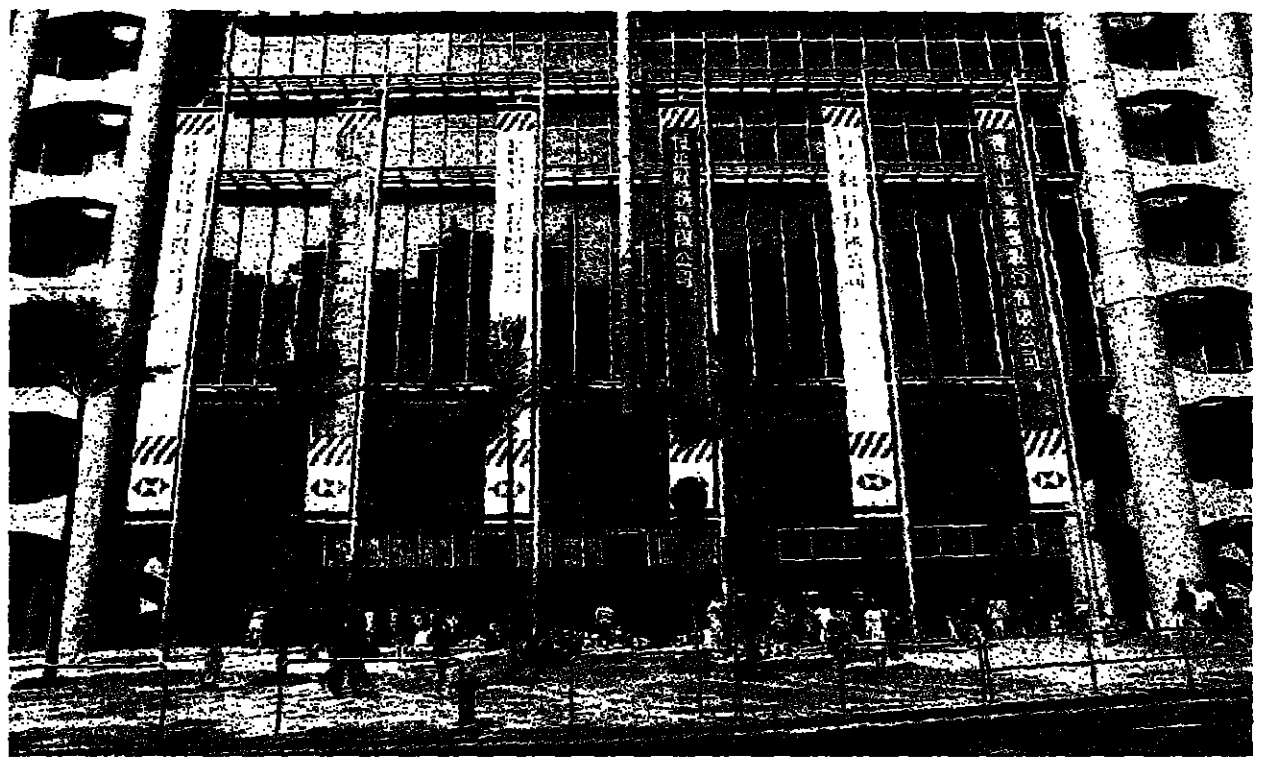
BEA's China operations, almost exclusively property lending, now account for around 10 per cent of its assets and made up around 15 per cent of its profits last year.

The next possible move for Hong Kong banks would be the licence to take deposits. This would be scarcely profitable, but would enable the banks to build up a client base in preparation for full competition.

Mr Bond says: "We are anticipating the day that we can do Renminbi business, but we believe that will only happen when we get convertibility of the RMB."

However, Mr Zhu Rongji, the vice-premier in charge of China's economy, has said that China will achieve full convertibility of its currency on current account before the stated deadline of the year 2000. The country recently took a further step forward, allowing inter-bank foreign exchange trading in four locations.

It should be worth the wait. With the advantages of decades of expertise in a full-blooded capitalist system, and vastly superior technology and risk management systems, Hong Kong's banks will be well placed to pick up an extremely profitable new franchise.



Acting quickly to build a network in China: Hong Kong's biggest banker, HSBC

■ **Investment banking:** by Louise Lucas

Tactics change as fight gets tougher

Merchant bankers are developing new strategies to meet the demands of the Asian market

Mr Trevor Bush, a carefully spoken Brit not given to hyperbole, pinches himself before going to bed every night. "It's so good," says the managing director of NatWest Markets of the first few months of 1996.

On the evidence to date, and even allowing for China's increasingly virulent sabre-rattling across the Taiwan Straits and a turn in sentiment on Wall Street, 1996 has certainly been kind to the colony's investment bankers. Up until Monday March 11, stock markets throughout Asia were rising: in Hong Kong the benchmark Hang Seng Index gained as much as 15 per cent before retrenching on Wall Street and China's war games.

But even as sentiment grows queasy, brokers are winning – volatility and still-healthy trading volumes ensure the picture for them is better than the one presiding over much of the past two years. The impact may be harder on the primary market, where China issues had – pre-war games – been tipped to put in a strong showing this year.

In the more sombre mood generated by this threat to South East Asian security, question marks still hang over a host of deals shelved during the bleaker days of the past two years. Yet, outside China, power and other infrastructure developments are attracting project financiers to the likes of Thailand and the Philippines.

The investment banks themselves believe they are in good shape to meet the demands of their sector. Lessons have been learned, in some cases brutally: the (mostly US) banks that marshalled big and expensive workforces on the promise of a bonanza from China have cut back on staff numbers and made salary and benefits packages more realistic.

Mergers have now raised the profile and increased the power of the European banks. This is especially true in the case of SBC Warburg – created by the union of the UK bank's secondary equities business in the region and Swiss Bank Corporation's bond activities and trade finance business.

But it will not be, and indeed is not, plain sailing. In Asia, as elsewhere, investment banking is at something of a crossroads. Mr Thaddeus Beczak, president of J. P. Morgan Securities Asia, says: "The investment banking business is going through an enormous transition, and the power is shifting to those who have the capital."

Mr Rodney Ward, chairman Asia Pacific for the newly merged SBC Warburg, believes the odds are stacked in favour of the global operators and those local firms that have the right kind of contacts and knowledge. "In between," he says, "is a large marzipan layer. And they are going to have a pretty tough time of it."

Just how tough is reflected in the private comments of one banker. "Very few investment merchant banks are making money in Asia except on proprietary trading because it's very expensive and you don't have the big deals that you have in the US and Europe," he says.

> In Asia, as elsewhere, the sector is at a crossroads

While public confessions of such difficulties are rare, strategies are certainly being revised. Salomon Brothers Asia, which last year shed some 50 members of its 300-strong Hong Kong team, primarily in administration, and a further handful in other offices in Asia, has dropped certain facets of investment banking – such as project finance. It remains, however, an eager participant in the capital markets, with both debt and equity capabilities.

"You have to have the full armoury," says Mr William Phillips, managing director, "although it's the equity related side that tends to have the highest margins." Proprietary trading, he adds, is a good engine for Salomon Brothers globally, although the size of Asia's fixed income market (excluding Japan) means the opportunities are smaller.

Project finance is something that was axed by Salomon in Hong Kong and which is being given a wide berth by a number of bankers. "It's not interesting for us, it's very labour intensive," says Mr Phillips.

But for NatWest Markets, which is also able to provide limited recourse financing, the huge demand for infrastructure spending in China and other parts of Asia means redrafting the western wisdom on project finance rather than shunning it altogether.

"We build out of the skills of project finance, going to our clients in China and saying we can provide you with advice on how to structure, and as we are a major project finance bank, we will be part of the project finance providers," Mr Bush says. "There is not the same difference as there is in Europe and the US between the advisory role and the financing role."

Another facet of investment banking eschewed by many but embraced by NatWest Markets is mergers and acquisitions. Goldman Sachs (Asia), which like many of its US brethren has contracted in recent years, has put together some US$3bn worth of M&A deals, including the sale of the final tranche of Star TV, the pan-Asian satellite broadcaster, to Rupert Murdoch. "Although the business is invisible, it is an important and growing one for us," says Mr Mark Evans, chairman and managing director.

Mr Evans's comments put him in a minority in Asia today; most bankers believe the proliferation of family controlled companies precludes an active M&A market. J. P. Morgan's Mr Beczak says: "There is virtually no M&A business throughout Asia"; and is echoed by Mr Jack Wadsworth, chairman of Morgan Stanley Asia: "We have very little M&A stuff here".

China is, naturally, the big hope of many in Hong Kong's investment banking fraternity. But for most, the country is a long, steady slog. Today, the bulk of experience is a sprinkling of branch and representative offices making bread-and-butter money out of trade financing. Perhaps the biggest step has been taken by Morgan Stanley, which has formed the trailblazing joint venture international investment bank with a licence to do domestic investment banking.

With no model to follow, the bank's parameters are clouded to say the least. As Mr Wadsworth says: "Doing business in China is tough. It's a good opportunity, it's very big. But now, it's a mess."

Fund management: by Louise Lucas

Rivals threaten premier role

The colony's status as the region's leading investment centre is being challenged

Fund management is a quintessential Hong Kong services industry. It relies upon the sort of financial infrastructure, information and telecommunications hubs on which the colony prides itself.

Soon, politicians willing, there will be another attraction: some HK$30bn a year is set to be unleashed by the new mandatory provident fund (MPF), a retirement scheme that will depend on a mixture of government and compulsory personal contributions.

But none of this means Hong Kong's future role in fund management is assured. Other countries in the region, notably Singapore and Malaysia, are making bids to lure business to their shores. Simultaneously, as global communications improve, some may see the need for a regional headquarters diminish, and prefer instead to manage asset location out of the US or Europe.

As Mr Marc Faber, who runs his own fund management firm, says: "In Europe, you have London as the financial centre, and there they run money in European and global equities. Will Hong Kong in 10 years' time still be the region's fund management centre? I have my doubts."

Fund managers, including HSBC Asset Management, one of the three biggest companies, have already bitten at the bait offered by Singapore and, to a lesser extent, by Malaysia. In January, BT Funds Management, a subsidiary of the Bankers Trust Group, became the first foreign fund manager to be signed in Malaysia since the country liberalised its finance industry last June. BT entered the market via a joint venture deal; other firms, including Jardine Fleming, are poised to follow.

Increasing the attractions of other countries are dark mutterings about an excessive regulatory regime in Hong Kong. Fears have intensified since the move, effective from July 1 last year, to scrap commission rebates. Many believe the securities watchdog, the Securities and Futures Commission (SFC), has become too powerful and that its substantial funds mean it has the luxury of delving into areas that do not need to be changed.

There are also concerns, made more real by Beijing's January edict to control the flow of news and business information within China, that the availability of economic data and analysis will dry up once China resumes sovereignty.

Hong Kong's three biggest fund managers concede some or all of the minus points, but say they remain committed to the colony. HSBC Asset Management, which manages some US$9bn of its regional US$12.5bn out of Hong Kong, dubs it "the regional centre today and for the forseeable future".

Notwithstanding its faith in the colony, HSBC last year moved the fund management responsibilities of two key funds to Singapore, and now manages some US$1bn out of the island. There were two reasons for the move: first, the fact that the Singapore government has tantalised foreign managers with the prospect of a slice of its massive Central Provident Fund; second, a desire on the part of HSBC to shift stock selection responsibilities closer to the relevant markets.

Jardine Fleming, which claims US$22bn under management regionally, is not ruling Singapore out and has already taken the first steps towards developing a joint venture in Malaysia. However, as befits the company co-owned by Jardine Matheson, one of Hong Kong's oldest conglomerates, the colony remains the regional headquarters.

Mr Robert Thomas, managing director of Jardine Fleming Investment Management, says Hong Kong is already seen as part of China and, consequently, as the gateway to regional business.

"Plus, here you have got all the top-class lawyers, accountants, brokers and everyone else you could possibly want, and a solid legal background. In most respects you are getting the same quality of services as New York or London, so it makes for a first world financial centre," he adds.

This view is echoed by Fidelity Investments, which manages roughly half its US$20bn regional funds out of Hong Kong. In addition, Fidelity attaches importance to Hong Kong's cosmopolitan workforce and open regulatory environment – the US-based house, unlike Jardines, has never been able to accept commission rebates and so supported the ban.

The colony may remain in demand as a regional headquarters, but its domestic market is more challenging than promising. Research shows just 4 per cent of the population invest in unit trusts; in reality, fund managers say penetration is much less. Conversely, competition in the business is fierce: there are some 47 fund management companies operating in Hong Kong, managing some 600 funds with total assets of around US$32bn.

While most of the industry professes to believe the MPF will be up and running within two years, it is by no means a foregone conclusion. The bill to set up the MPF was passed by the Legislative Council (LegCo) last July, but Beijing has not yet endorsed it. And, while the MPF will undoubtedly bring in new money, it will be limited – in keeping with the 6m population, a sizeable proportion of whom are already in retirement schemes.

Details on the MPF are still conspicuously absent, but the demographics of corporate Hong Kong – where small, family owned companies are prevalent – means the administration of the pensions will be no small task. Both Jardine and HSBC Asset Management reckon they are equal to the challenge, having the technology to manage the fund, but agree the economics have yet to be worked out.

One thing is clear – competition will be intense. It appears the government was at one time considering awarding the private sector responsibility for the whole package – the management of funds, the administration of schemes and the role of custodian and trustee. This means it is likely that companies bidding for the business will form affiliations in order to perform the different tasks. Foreign businesses may be tempted in to administer and manage funds; consultants may harbour ambitions to administer schemes.

Growth on the institutional side should not end at the MPF. Mr Robert Duggins, chief executive (Asia Pacific) at HSBC Asset Management, says he still hopes to see income flowing from non-pension mandates such as government funds and corporate surpluses.

> Dark mutterings about excessive regulation are not helping the Hong Kong case

On the retail unit trust side, he sees growth being driven by distribution. Four years ago unit trusts were all but invisible and perceived as being strictly for the wealthy; now, banks are big retailers of the funds and monthly savings plans – where investors can contribute smaller amounts monthly – are more commonplace.

Yet problems persist: the paperwork is seen as confusing and overwhelming, and unit trusts compete against an immensely user-friendly stock exchange in a place where investors pride themselves on their market knowledge.

Cross border selling also poses a headache, much to the puzzlement of Jardine Flemings' European colleagues. Says Mr Thomas: "One of the ironies of progress is that as each country gets more sophisticated and builds up its financial markets it also builds up cross-border barriers.

"For example, Taiwan used to be a great place to sell our unit trusts. Now it is keen to promote its own mutual fund business and the authorities make it more difficult to sell our products."

Investment headache? Good brokers add to Hong Kong's attractions AP

PROFILE Marc Faber, manager of the Iconoclastic International Fund

The prophecies of Dr Doom

Mr Marc Faber, who runs his US$30m Iconoclastic International Fund out of Hong Kong, is not your average fund manager.

The Swiss born former Wall Street broker sports an ever-shortening ponytail (the scissors come out when his predictions about the Hong Kong market fail to materialise) and likes to lounge back in the sort of wooden chair a planter might have collapsed into at the end of a long day under the tropical sun.

In an industry more or less dominated by the three big players – Jardine Fleming, Fidelity Investments and HSBC Asset Management – he is something of an icon himself. His boutique-type outfit has flourished through its founder's contrarian pronouncements, its diversification and its international network of contacts: Mr Faber is also associated with funds covering India and Russia.

The firm has a staff of 10 to support the broking and fund management activities, and to produce a monthly investor newsletter, "The Gloom, Boom and Doom" report.

Known himself as Dr Doom, Mr Faber tends to challenge popular opinion. Not for him the accepted wisdom that there will be a boom in Asian markets this year or – the favourite mantra of the colony's property developers and analysts – that property prices will bounce back to new highs. On Hong Kong's own property market, where HK$1m will buy a tiny 500 sq ft flat in the further reaches of the Kowloon peninsula, he says: "I think this market has peaked out forever".

But he does, of course, see that there is money to be made: his Iconoclastic fund takes long and short positions around the world, identifying opportunities in distressed stocks and selling short those perceived to be expensive (which now means US technology shares).

He came to Hong Kong 23 years ago, and, while he holds little by the way of Asian instruments in his portfolio today, he still believes the colony offers clear advantages to fund managers dependent upon information for their livelihoods. Thanks to its number of visiting US diplomats and economists, plus its concentration of observers of Asian economies, Hong Kong, he says, is a crucible of data and information.

However, its future as the preferred location for managers of Asian funds is in question and will be even more at risk once the corporatisation of China takes off. The growth of communications technology will splinter the industry so that fund managers either base themselves in the heart of the country they cover – be it China or Indonesia – or back in Boston or Edinburgh.

Mr Faber, of course, is well aware of the factors forcing change. Being in Hong Kong gives him the exposure and information he looks for, but it also brings its own bugbears. One of these is regulation, which Faber reckons is set up in such a way as to scare off many wealthy clients, especially the Chinese, after the June 1997 handover.

He says that the Securities and Futures Commission (SFC) has distressed a wide segment of the sector with its far-reaching powers to walk in and read client documents. This, detractors believe, will exacerbate the concerns of wealthy Chinese, many of whom are nervous of keeping funds in the colony.

Thus after June 1997 Faber sees a trend emerging: "Private banking is going to shift to a large extent to Singapore or even further away, because a lot of Hong Kong Chinese and overseas Chinese around Asia who have business dealings with the mainland are wary of having private banking accounts in a Chinese jurisdiction; some are even worried about having any in Singapore, knowing the close ties and great friendship Singapore seems to maintain with the mainland.

"What will stay is fund management for south China, Hong Kong and – for the time being – the mainland. But I expect that in five to 10 years' time the mainland will have, say, 10,000 listed companies: it's going to explode, it's going to be like India eventually. So then I expect fund management for China will be carried out to a large extent in Shanghai."

Louise Lucas

Tourist industry: by Simon Davies

Three stars for comfort

The increase in the number of visitors from Asia is fuelling demand for lower-tariff hotels

Hong Kong's ageing airport may be close to saturation point, and inflation may have diluted the city's attractions as a low-cost shoppers' paradise, but the colony's hoteliers are enjoying the best times since the late 1980s.

This is partly the result of a continuing rise in the number of tourists, with heavy growth from the harder currency Asian countries such as Japan and South Korea. But the main reason is that the hotel industry has become yet another victor in the property boom.

Since 1993 a total of nine hotels have shut down, with almost half the 3,500 room closures taking place on Hong Kong island. This reflects not only the proliferation of new five-star properties that went up in 1990, but also a programme of redevelopment to cash in on the rising value of office space.

This is causing some concern in the Hong Kong tourist industry. Tourist spending accounts for over 6 per cent of the colony's gross domestic product, with HK$84bn spent in 1994. It is a vital source of revenue for the retail sector at a time when local spending is extremely subdued.

Mr Martin Barrow, chairman of the Hong Kong Tourist Association, says: "We need to ensure that there is a steady increase in hotel supply. We need about 2,000 to 2,500 new rooms a year just to maintain the rate of growth in tourism."

The squeeze is less likely to be felt in the high-tariff market, which has seen the bulk of the recent closures. US and European visitor growth is currently static, reflecting weak European economies and the escalating cost of accommodation in Hong Kong compared with other Asian centres. There has also been a slight decline in the percentage of business travellers, a traditional staple of the luxury hotel market.

Additional visitors are instead arriving from other Asian countries and feeding the demand for lower tariff hotels. There has been an influx from other countries such as Taiwan, and Mr Barrow predicts that eastern Asia will soon account for 75 per cent of total visitors. This compares with less than 25 per cent in 1975.

Many mainland visitors – which accounted for 21 per cent of last year's total – currently stay with families or in hostels and therefore have only a limited impact on the market. But the economic transformation of southern China could reverse this trend, with Hong Kong acting as a business hub for the neighbouring Guangdong Province. The opening of the HK$70bn Chek Lap Kok airport, scheduled for April 1998, will accelerate the growth in tourism. While the current airport is full to capacity, Chek Lap Kok will be able to handle an additional 10m passengers a year.

Mr John Hung, managing director of Wheelock, the Hong Kong conglomerate, says: "From 1997, the amount of trade between Hong Kong and the mainland will escalate, and there will be greater need for three-star hotels."

Wheelock has acquired two sites for low-tariff hotels. And a further nine will be constructed along the airport railway line, adding 5,160 rooms.

However, with the extremely high cost of land and the superior returns from investment in retail and commercial property, there is little incentive for property investors to boost room numbers further. Mr Gordon Wu, chairman of Hopewell Holdings, is still planning to construct the 2,400-room Mega Tower Hotel, but given the company's rising debt and slow progress with planning, it is unlikely to meet its 1998 target completion date.

The government has started to intervene and has introduced zoning on some land sites that are auctioned off to the property developers. It has dictated, for example, that the HK$40bn development of the central airport railway terminal in the latest harbour reclamation project contains a hotel.

That clearly goes against the laissez-faire philosophy of Hong Kong. But, given the risks of restraining an industry that has driven the economy, and which is also the colony's second largest earner of foreign exchange, it looks like a worthwhile sacrifice.

Lukewarm reception? Demand for luxury accommodation such as that at the Grand Hyatt has fallen slightly

The new airport: by John Ridding

From rows to runway

After political feuding, Chek Lap Kok is set to clear the aviation bottleneck

Grounded by a dispute between Beijing and London, Hong Kong's new airport once stood as a symbol of the diplomatic impasse between distant political masters. Now the project is fast on course to stand as a more inspiring emblem – a demonstration of engineering ingenuity and the efficiency of Hong Kong's planning and construction capability.

Since the breakthrough on the political level was achieved last year, when a financing structure was finally accepted by Beijing, the airport project has advanced at a heady pace. Rivalled only by China's Three Gorges dam in terms of scale, it is on course for completion by April 1998, according to Mr James Dundas, finance director of the Hong Kong Airport Authority.

The diplomatic tussle prompted a delay beyond the original mid-1997 opening date, and a question-mark still hangs over whether the accompanying rail link to the city centre, temporarily frozen by the dispute, will keep pace with the airport itself. Mr Russell Scott, project director at the Mass Transit Railway Corporation, says a decision will be taken next year on whether work can and should be stepped up.

Officials, however, are confident that budgets can be met, and even beaten. "The overall budget is HK$158bn, which is down from projections of about HK$163bn in 1992," says a planner involved in the project. "I don't see any reason why the target won't be achieved."

Few big infrastructure projects can make similar claims. And in the case of the Hong Kong airport, such a prediction is all the more striking for the complexity and size of the project and its related facilities.

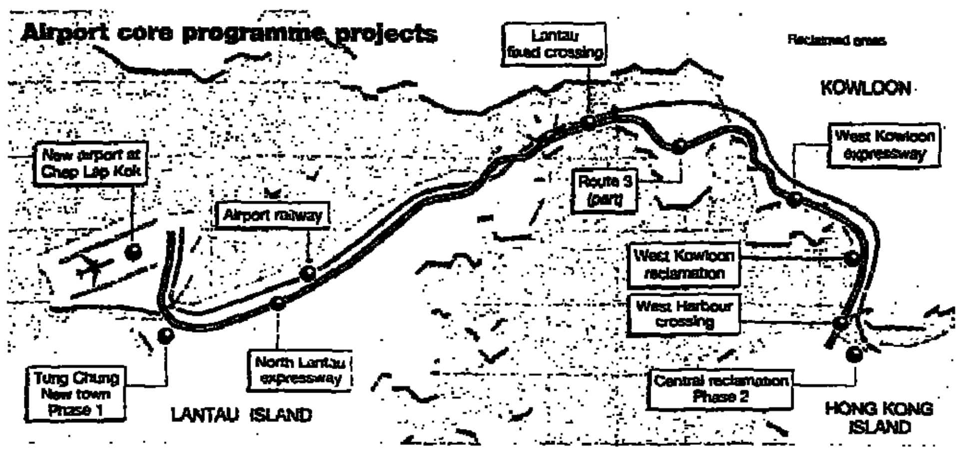
In addition to the airport, which has required a vast land reclamation and the flattening of a hill, the scheme involves nine co-ordinated projects. These include the railway link to the city centre, the world's longest road-rail suspension bridge, and extensive property developments above the rail terminals. On Lantau island, adjacent to the new airport site, a new town is being built.

> Hong Kong's destiny relies on the defence of its position

All of this, of course, is just phase one. Backed by a strong business lobby and the airport authority itself, plans for a second runway are already being cleared for take-off. "It is a government decision," says Mr Dundas. "But there is strong pressure for it to go ahead." The new town at Tung Chung, the first to be built on an outlying island, is also poised for expansion.

Once the scope is grasped, however, the question remains of whether the project can be justified. "It is the most grandiose scheme in which I will ever be involved," says one of the engineers who has worked on it.

Quite apart from the symbolic vote of confidence in Hong Kong's future that the new airport represents, there are more down-to-earth reasons for the scheme. Hong Kong's destiny depends on the defence of its position as an entrepôt and as a gateway to China. With Kai Tak airport in Kowloon straining at the seams, a new site was needed. And with Hong Kong's land-scarce geography, a bold solution was required.



Once up and running, the new airport will deal with all of Kai Tak's annual 26m passengers and the expected growth in volume. Mr Dundas expects throughput of just under 35m passengers in the first full year of operation. "Kai Tak has done very well to wring the capacity it has out of its present site, but the limits have been reached," he says.

The potential for expansion will consolidate Hong Kong's position as the fourth busiest international airport and the second busiest cargo destination in the world. Air cargo tonnage has grown at an average of 13 per cent over the past decade, reaching more than 1.3m tonnes last year.

The associated developments, particularly along the mass transit lines, will create new residential and shopping centres and ease the congestion on Hong Kong's transport system. "For us, the airport railway is as much to do with our other traffic as the airport express," says Mr Black, who estimates the various projects above airport rail depots will be worth a total of HK$140bn.

Projections envisage that all of the airport authority's debts will be paid off within four years as revenues from tolls, tariffs and fees pour in. Unlike the Channel tunnel, therefore, the project's costs pose little risk to its financial backers.

This is partly a reflection of the financial structure adopted for the scheme. Debts for the initial airport project have been capped at HK$11.6bn, compared with equity of more than three times that amount. According to Mr Dundas, there is no need to return to the government for equity injections for future stages in the project.

The airport authority's finance chief is similarly relaxed about the increase in competition between airports in the region. Facilities are being expanded at Shenzhen and Zuhai on the mainland, and in neighbouring Macau. Guangzhou has also established itself as a significant airport, handling about 10m passengers a year.

"We don't worry about overcapacity," says Mr Dundas. "If you look at the rate of growth over the past decade or so, that is not going to be a problem. The problem for Hong Kong would have been if we were not in a position to handle it."

Airlines: by Louise Lucas

A cloud over Cathay Pacific

Competition from China after 1997 poses a long-term threat to the island's carriers

It is the best of times and the worst of times for Cathay Pacific, Hong Kong's de facto flag carrier.

The 1998 opening of the colony's new and bigger airport at Chek Lap Kok gives Cathay Pacific the opportunities that have been found wanting at Kai Tak, the existing airport in the heartland of residential Kowloon.

But as horizons broaden, so too does competition.

The international operators could always have been counted on to descend on Hong Kong, aviation hub of the rapidly growing Asian region. Regional competition, from the increasingly slick likes of Thai Airways and Singapore Airlines, was likewise on the cards.

What Cathay and its parent, Swire Pacific, had hoped to put to rest, in a carefully drafted ownership structure hammered out in 1992, was competition from China itself. Indeed, says Swire, this eventuality is in theory ruled out in the Sino-British Joint Declaration, which says that a Hong Kong airline running scheduled flights originating from Hong Kong must have the territory as its principal place of business.

But in practice the safeguards appear not to have had the desired effect: China's Civil National Aviation Corporation (CNAC) is expected to obtain its air operator's certificate in the next few months, and to start applying for air routes shortly thereafter.

Taken at face value, a Chinese airline ought to pose scant threat to an established international carrier. But CNAC has one huge advantage: it is controlled by Beijing's aviation regulator, the Civil Aviation Administration of China (CAAC).

> Cathay is investing heavily to offer customers greater value for money

It is this that worries Cathay. Says Mr Rod Eddington, managing director: "I feel uncomfortable about competing with the commercial arm of a regulatory authority because it allocates air routes. How can you be player and referee at the same time?"

Parentage apart, Cathay is unlikely to feel the pinch of competition from CNAC in the short term. Industry players reckon it will start with the market it knows and which will not incur the same expenses – China. This means that the first flush of competition will be felt by Dragon Air, today's preferred choice for Hong Kong business travellers flying north.

Dragon Air itself has a colourful, if short, history. Set up in 1985, it is now owned 30 per cent by Cathay Pacific, 13 per cent by Swire Pacific, 46 per cent by Citic Pacific, the Beijing investment group, and 11 per cent by private investors, including the family of Mr Steven Chao, the Shanghai-born textiles magnate and founder of Dragon Air.

According to those involved in its inception, Dragon Air was set up with the express purpose of establishing a Hong Kong owned and managed airline. (Cathay, in contrast, in which John Swire and sons of the UK has a substantial stake, has a British identity.) But the company flew into all-too-ordinary problems, racking up losses and suffering from the effective statelessness of Mr Chao (the family shares are now held by his son, a British passport holder).

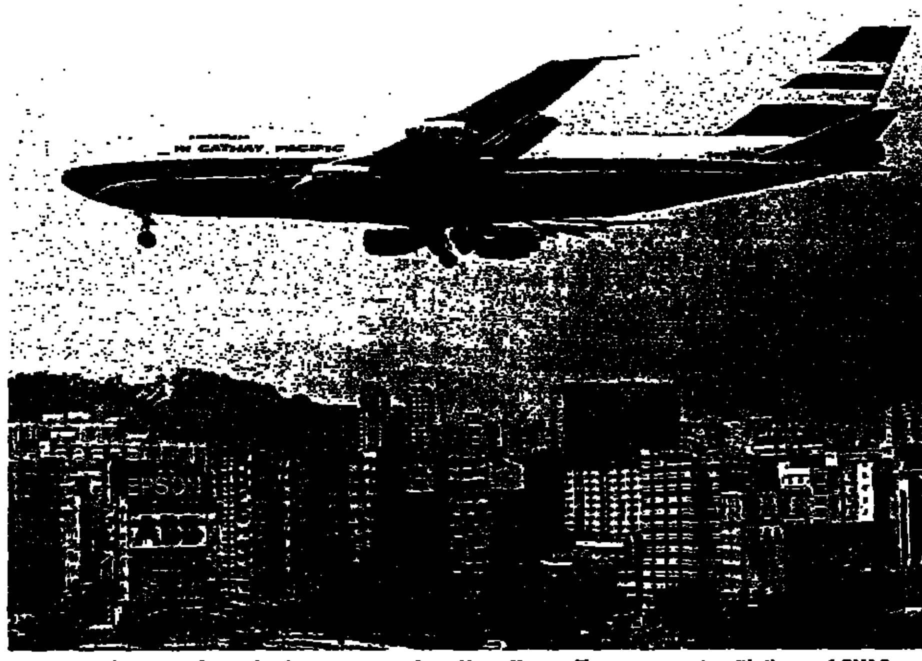
Problems came to a head in November 1989, when the late Sir Y. K. Pao, one of Hong Kong's leading business tycoons, sold his controlling 37.8 per cent stake. Just two months later, on January 17 1990, Cathay Pacific and Citic together swooped on the smaller airline in a joint HK$700-750m takeover.

It was Dragon to which Air Cathay looked when CNAC's intentions first became clear. Cathay sought to divert CNAC's ambitions by offering it a slice of Dragon Air; coincidentally, the 10 per cent offer was pitched at some HK$700m, according to market estimates.

Bankers to the deal, which would have led to a listing of Dragon Air early this year, have been taken off the case. According to Mr Steven Miller, Dragon Air's chief executive, back in the early days under Sir Y. K. – a man with no love lost for Cathay – the notion was a non-starter.

"CNAC wants a share of aviation in Hong Kong post-1997. It is already in China, and has the regulatory authority as parent. For sure it is not going to be satisfied being a 10 per cent investor in Dragon Air, and HK$700m is a lot of money when you can start off by leasing aircraft," he says.

Cathay's stance now is for continued negotiation, employing all the diplomacy and goodwill it can muster. It recognises that competition, in what is the hub of one of the sector's most attractive regions, is springing up from all quarters, and looking increasingly good; as Mr Eddington acknowledges, "You live or die on your ability to compete".



Suffering turbulence? Cathay's planes en route from Hong Kong will soon compete with those of CNAC *Reuter*

To that end, Cathay is investing heavily to offer customers greater value for money, and working hard to improve margins by containing costs. The immediate outlook, says Mr Eddington, is bright: "Airlines worldwide have had a much better 1995 than 1994, and that's certainly true for us."

The airline last year turned in a profit of $HK2.98bn. But analysts are increasingly bearish. For the short haul, the impact of CNAC may hit Dragon Air – sparking something of an intra-China battle in the skies, with CAAC pitted against Citic – but in an increasingly politicised environment, it seems likely that the only way Cathay will be able to survive is with a changed ownership structure, which would mean extending CNAC's current stake of 5 per cent.

The shufflings going on at Cathay's premier Chinese shareholder, Citic Pacific, underline the writing on the wall. Last week Citic replaced its top dogs on Cathay's board – Mr Larry Yung, chairman, and Mr Henry Fan, managing director – with two men bearing the altogether lesser titles of director and assistant to the managing director. Mr Yung's lame excuse (for a non-executive director) was a desire to spend more time on Citic.

Cathay insists it is a Hong Kong company through and through, being controlled by the Hong Kong listed Swire Pacific. To industry watchers, however, its rhetoric is starting to sound rather hollow.

Hong Kong International Terminals: by John Ridding

Mainland mission takes off

Expansion in China and new efficiency at Kwai Chung port are the heart of the group's strategy

Several thousand trucks pass each day through the gates of Hong Kong International Terminals (HIT). Inside the company's headquarters, the activity is just as intense as the world's largest private port operator, a pillar of Mr Li Ka-shing's business empire, strives to consolidate its position.

At the heart of the group's strategy is a bold expansion in southern China and improved efficiency in Hong Kong, the world's busiest port, which, along with the rival operator, MTL, it dominates.

"We are building up our position on both sides of the border," says Mr John Meredith, HIT's managing director, referring to a string of new ports being developed across the Pearl River delta and the HK$1.5bn modernisation programme at its facilities at Kwai Chung, the Hong Kong port.

In so doing, HIT provides an example of how some of Hong Kong's biggest business groups are adapting to the expansion of the southern Chinese economy. By forging partnerships with mainland partners, such as Cosco, and investing in new facilities, the group is capitalising on the spread of industrialisation across the border and securing its position as trade flows diversify. By investing at home, it is seeking to ensure that its Hong Kong stronghold remains the leading port centre in the region.

But it is not all plain sailing.

Port traffic to and from China (000 tonnes)

Year	Ocean	River	Total
1985	5,723	6,615	12,338
1986	7,051	7,623	14,674
1987	8,205	8,368	16,573
1988	8,925	8,897	17,822
1989	9,769	7,798	17,567
1990	9,824	8,407	18,231
1991	11,648	10,344	21,993
1992	11,825	18,138	29,963
1993	13,902	20,374	34,276
1994	18,711	26,036	44,747

Port Development Board

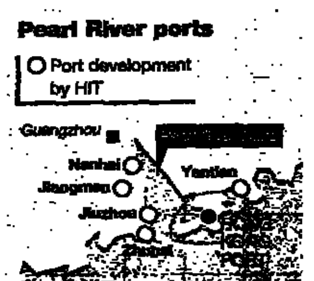
HIT and the other Hong Kong port operators have been struggling to agree on a planned expansion of capacity. The company, which accounts for about 4.5m TEUs (20ft equivalent units) of cargo each year at Kwai Chung port, also faces a challenge from rivals in Singapore and Taiwan, which are seeking a bigger slice of regional and trans-Pacific trade.

The stakes extend beyond HIT. The port operator provides a big chunk of profits at Hutchison Whampoa, the conglomerate controlled by Mr Li Ka-shing. Analysts estimate that HIT achieved operating profits of HK$3.2bn in 1994, and an operating margin of about 50 per cent. "It is one of the cash cows of the group," says an industry analyst.

At the moment, it is capacity rather than growth that is emerging as the main issue. Fuelled by the strong economic expansion of southern China, throughput at Kwai Chung has grown by double-digit rates over the past decade. The Hong Kong Port Development Board forecasts container throughput will reach 32m TEUs by 2011, compared with about 12.6m TEUs last year. That represents an increase every year almost equivalent to the capacity of Felixstowe, the UK port which is owned by HIT.

Capacity expansion has been stalled for the past three years by a protracted dispute, stemming from friction in Sino-British relations and the participation of the Jardine group in the Tsing Yi consortium, which was awarded two of the four berths in the new CT9 terminal. A softening of Beijing's stance has cleared the way for an agreement, but it requires a complex reshuffling of existing berths.

Pearl River ports



Despite the delay and the ensnaring of politics and business, HIT appears sanguine. "We have been able to compensate by upgrading productivity," says Mr Meredith. A series of measures, such as the increased use of computers systems to manage cargo flows and the use of swipe cards by truck drivers making deliveries, has boosted efficiency. The turnaround time for a truck, for example, has been halved over the past three years.

Efficiency measures in Hong Kong are one prong of HIT's strategy. Away from its home port, the biggest thrust is the expansion of facilities across southern China. These ports, formed through joint ventures, range from the river port at Jiangmen city to a facility at Gaolan. At Yantian, to the east of Hong Kong, HIT is developing a new deep water port with initial capacity of 500,000 TEUs.

To buttress its position away from Guangdong province, HIT has formed a joint venture with the Shanghai port authority and is involved in an expansion plan that is scheduled for completion by the end of this year.

Mr Meredith cites two reasons for this activity. One is the rise in intra-regional trade. "Twenty years ago, about 65 per cent of our business was with the US – now the proportion is about half that." For a port operator this matters, because there is an increasing demand for direct shipments from southern China to destinations within the region. Also, such trade can use smaller vessels than the 4,000 TEU ships that ply the trans-Pacific routes and require deep water ports.

A second factor has been economic development across southern China, which has increased demand for trade and transport infrastructure. "You can't dictate clients' demand. Ultimately, you have to be where the business is happening," says Mr Meredith.

The activity this strategy has prompted is not without risks. Although Mr Meredith reckons that a new berth in China costs about half as much as in Hong Kong, the sums are still substantial. In addition, some observers cite a lack of co-ordination in the region's infrastructure. "The locations often have as much to do with politics as they do with trade," says one banker involved in infrastructure projects.

But for most, the risks are outweighed by the potential rewards. "They are getting their feet in the right doors," says one shipping executive. "And on the assumption that trade growth remains robust, they will benefit."

■ **Property:** by Simon Davies

High prices, high hopes

Having survived the recent slump, developers face the future with new confidence

If property prices remain an accurate barometer of Hong Kong's confidence in its future, then fears over China would seem to have been exaggerated.

The world's second most expensive property market is about to come under the sovereignty of one of the world's poorest nations, but Hong Kong's inhabitants are taking substantial bets on the city's future prosperity. Demand for new flats is so high that after a two-year lull, the triads are again selling places in the queues outside property company offices.

Mr Walter Kwok, chairman of Hong Kong's largest residential property developer, Sun Hung Kai Properties, says: "Nineteen ninety seven is only a date in the calendar, it is not an issue any more. If people were worried about 1997, they would have left already."

Volatility has been a standard feature of Hong Kong's residential property market for years. In just the first quarter of 1994, residential prices rose by an estimated 20 to 25 per cent, and by the start of 1996 they were around 30 per cent lower.

But unlike the early 1980s, the recent property collapse has left no serious casualties. The developers have conservative balance sheets, and the banking sector has not even had to increase bad debt provisions.

Steadier growth is now expected, but the numbers are still heady by international standards. Mr Henry Cheng, managing director of New World Development, says: "We don't expect a very rapid rise in property prices before 1997, just 15 to 20 per cent a year. After that, they will go up more sharply."

His confidence is shared by many. Since December, property companies have raised $HK11.5bn for investment in Hong Kong. Even the Jardine Matheson group, which has been absent from land auctions since the early 1980s, put in a bid for a luxury residential site last December.

Ironically, confidence has been aided by the anti-speculative measures of the governor, Mr Chris Patten. These caused a sharp reduction in pre-sales – sales of new flats before they are ready for occupancy. Working capital was therefore tied up for longer than planned, leaving developers unable to embark on new projects. SHK Properties says the number of residential units sold in Hong Kong will fall to 26,000 in both 1996 and 1997, compared with the historic average of 30,000. Lower interest rates and increased competition in the mortgage market have reduced financing costs. Meanwhile, there was a 13 per cent increase in average family incomes last year. This suggests every expectation of a pick-up in demand.

The mass property market should lead the way. Hong Kong is once again experiencing net levels of immigration, but much of the addition is from mainland China, where affordability is lower. Moreover, more than half the population is still housed in government properties and rising salaries will enable more people to move out.

The luxury property market still faces downward pressures. Fewer financial services companies are handing out the £10,000-£20,000 a month housing allowances that became prevalent in 1993 with the arrival of numerous US investment banks.

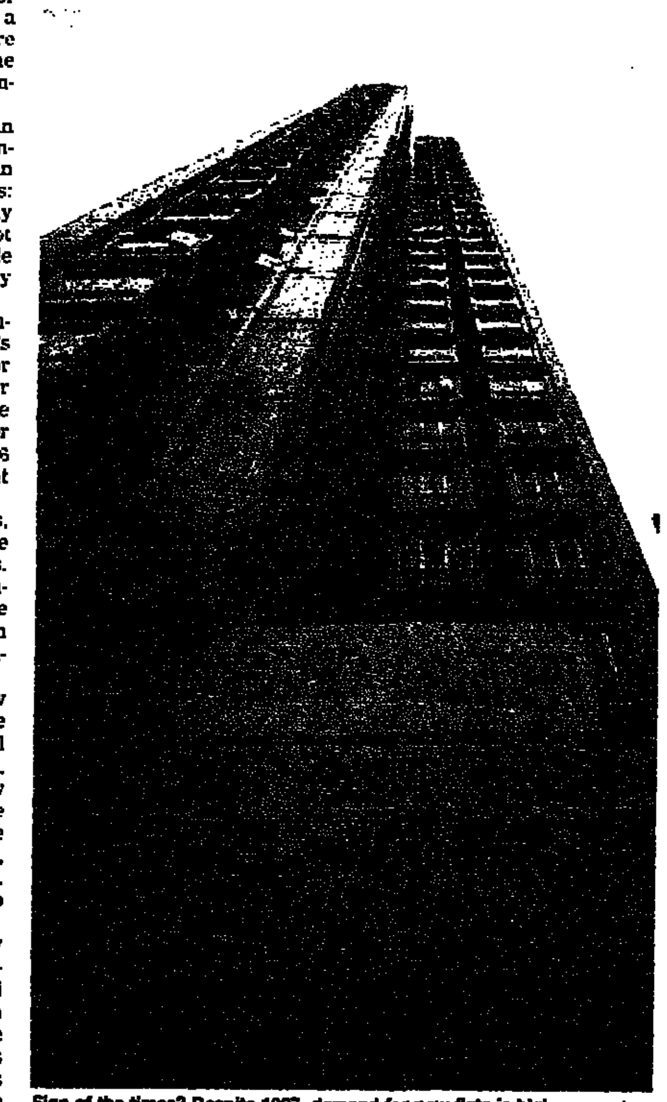
The commercial property market, meanwhile, is still suffering a hangover from the last boom. It was the target of a wave of mainland Chinese money that was trying to escape a depreciating local currency in 1993 and early 1994, but the funds dried up with China's austerity programme.

Mr Peter Churchouse, managing director of Morgan Stanley, says: "Commercial property prices have fallen by between 35 and 50 per cent since the fourth quarter of 1994. At those prices, you had to believe that the risk premium in Hong Kong had halved from its traditional average."

With many a new office property coming on stream over the next two years, the immediate prospect is for further declines. Nonetheless, a resurgent stock market and the creation of a mandatory pension scheme in Hong Kong should support demand from the financial sector. The eventual relaxation of China's austerity measures will also take up some slack. The long-term hope is that mainland corporations will flood across the border after 1997, given Hong Kong's advantages as a base over Beijing, Shanghai and Guangzhou.

In the meantime, there will be further fragmentation in the market, with well located modern properties faring better. During the 1990s, Swire Pacific's property arm developed a substantial fringe business district in the east of Hong Kong Island, based around the Quarry Bay intersection on the Mass Transit Railway (MTR). Occupancy is high and it has succeeded in attracting a number of banks and multinational tenants away from the core central business district.

As Mr Keith Kerr, managing director of Swire Properties, says: "A lot of international businesses are getting more cost conscious. But they would rather move down the MTR line than out to Singapore."



Sign of the times? Despite 1997, demand for new flats is high *Sarah Murray*

PROFILE Sun Hung Kai Properties

A calculated risk in China

Long the most conservative of Hong Kong's big property groups, Sun Hung Kai Properties is gradually coming out of its shell. The success of its core business of building residential property has produced a substantial amount of cash flow, which is being ploughed back into infrastructure projects and China property investment.

Local development schemes and diversification across the border are each to account for only 10 per cent of assets, but for a company with gross assets of more than $HK120bn that is a substantial commitment.

SHK's aim to build a recurrent earnings base is not new. The group started developing a property investment portfolio in the early 1960s under Kwok Tak-seng, its founder. But the growth of SHK's residential development division has made it hard for rental income to catch up.

Mr Walter Kwok, chairman of SHK, says: "For seven or eight years we have tried to increase our rental profits to equal those from property trading, but the trading side has grown so fast that we could only achieve 40 per cent."

Kwok Tak-seng died in late 1990. But unlike Hong Kong's other substantial property groups, where there are serious concerns over the succession from dominant founders to their children, SHK has thrived under Kwok's three sons. The second generation has maintained SHK's conservative stance, while making opportunistic investments in unrelated areas, from mobile telecommunications to toll roads.

The group's move into mobile phones is already profitable, and it is bidding for a new personal communications services licence. Meanwhile, investments in a freight forwarding centre at the Chek Lap Kok airport and a toll road connecting western Kowloon with the New Territories have linked SHK with mainland Chinese investment groups. This underlines the extent of its ties with Hong Kong's future sovereign: Mr Kwok also sits on the Preparatory Committee appointed by Beijing to oversee Hong Kong's reversion to Chinese sovereignty.

Nonetheless, SHK has been unenthusiastic about putting money into China. Mr Kwok says: "We have been very cautious on China. We have taken a long-term view, developing only in the best locations. In China, it is dangerous to take a short-term view, as there is going to be a lot of over-supply."

The strategy has been partially vindicated by the slump in residential property prices in southern China over the past two years. But it is likely to take a long time before SHK's China investments reach the 10 per cent target.

SHK's main strategic error of the 1990s has been its expansion into fringe industrial/office property, which has been the weakest segment of the Hong Kong market.

Nonetheless, the group is well placed to benefit from the transformation of western Kowloon and the western New Territories as the new airport leads to improved infrastructure. Even if SHK does not offer the same growth prospects for China projects as its competitors, the risks are a lot lower.

Simon Davies

The battle for business as usual

Continued from page 1

has emerged, including Mr Tung Chee-hwa, a shipping tycoon, and Mrs Anson Chan, the respected head of the civil service. Jockeying is expected to last through the summer before the result is known.

Whoever gets the nod will face a tough task. No-one expects Hong Kong to remain unchanged after 1997. From taxi drivers learning mandarin to Chinese élites moving into business and social institutions, the pull of the mainland is clear. But in the key areas of government autonomy, the rule of law and transparency in business transactions, the chief executive and his administration will determine whether the Hong Kong system remains intact.

Many argue that Beijing will not interfere in Hong Kong. "The principle of autonomy is established and is supported by the Chinese leadership," says Mr John Gray, chairman of Hongkong Bank. "They have a vested interest in this place," says another financial executive. "Shanghai has a long way to go before it can serve as an international financial centre."

But risks may lie elsewhere. China is not a monolith, and whatever Beijing's intentions, some see a threat from middle-ranking and provincial officials seeking a slice of the action in China's richest city. In Hong Kong itself, there is the risk that pragmatism may erode principles. "The big TV channels don't even send crews to cover my press conferences," says Mr Martin Lee, referring to the danger of self-censorship.

Hong Kong lobbying of mainland authorities has already emerged as a problem. Beijing's refusal to approve a new batch of mobile telecoms licences appears to have followed pressure from disappointed local candidates. "This shows the real risk to autonomy may come from within," says one industrialist.

It also shows how business strategies have become complicated by the looming transition. "Mainland connections will continue to become more important. It is as simple as that," says one local executive.

In practice, it is not that simple. The Swire group, for example, which has formed alliances with mainland partners, still faces a threat from Chinese interests. CNAC, the airline arm of China's civil aviation

Pragmatism may erode Hong Kong principles

authority, wants to operate services from the territory, a move that would challenge Cathay Pacific, a Swire subsidiary and Dragon Air – jointly owned by Cathay and Citic, Swire's China-backed partner.

A broader concern in the business community is the possible rise of connections and corruption. Although few see problems now, and many accept that connections have always played a part in Hong Kong's commercial life, such worries are frequently expressed.

Regional rivals are well placed to capitalise on any deterioration in the business climate. Singapore has already emerged as a heavyweight competitor in the financial services sector, drawing foreign exchange operations and fund management teams. The ports springing up along the southern Chinese coast, along with big regional facilities in Taiwan, Shanghai and Singapore may win a greater share of shipments.

It is not, however, a zero-sum game. The growth of trade and investment in east Asia means that Hong Kong should remain a vital hub for China and the region, if not the only one. The road to 1997 may prove bumpy, and the glamour of the quirky colonial outpost may fade over time. But if Hong Kong's new administration and its present institutions can stand up for themselves, then business can go on as usual.

The funds will buttress Hong Kong's fund management industry

Pensions and housing funds top HK agenda

By John Ridding in Hong Kong

Hong Kong is aiming by early next year to complete legislation for a mandatory pension scheme and to set up a government-backed mortgage corporation, Mr Rafael Hui, financial secretary, said yesterday.

They are among the most important financial and social projects on the government's agenda ahead of the handover to China in July 1997. In addition to providing retirement benefits and improved access to housing finance, they are also expected to bolster the territory's capital markets.

According to Mr Hui, the pension scheme, or mandatory provident fund, will generate annual funds equivalent to about 4 per cent of gross domestic product, or more than HK$20bn (£1.7bn), by the early years of the next decade. These will buttress Hong Kong's fund management industry, which is facing stiff competition from regional markets, notably Singapore.

The scheme has drawn criticism from local democratic politicians who have demanded stronger government guarantees for the pension funds. Mr Hui said that Hong Kong had opted for a system in which the private sector was responsible for investment decisions and returns, rather than one with a greater role for the government, such as Singapore's Central Provident Fund, because of considerations of efficiency and philosophy.

"The power of the state is too big under the CPF," said Mr Hui. "The returns are relatively low and economic resources are locked up."

Investment guidelines concerning the Hong Kong funds are being debated by government and industry. Mr Hui said that while it was too early to speculate on the shape of the guidelines, the size of the funds meant that overseas investment would be necessary. But he added that the lack of a government guarantee for the pension funds would increase pressure for a conservative approach.

The Hong Kong Investment Funds Association said that its basic stance was to avoid restrictions on investments in terms of geographical location or asset class. "Our principle is freedom of choice for scheme members and fund managers," said an IFA official.

With respect to the mortgage corporation, outlined in the 1996-97 budget presented earlier this month, the aim is to avoid a predicted shortage in mortgage funding. According to the Hong Kong Monetary Authority, the shortfall in funds could exceed HK$700bn by 2005 if a government-backed corporation to resell mortgages is not established.

The mortgage corporation is also intended to bolster stability in the banking sector. This would be achieved by easing the mismatch between long-term mortgage lending and short-term deposit funding.

Hong Kong Survey, Separate Section

Building China: big promise but tough terms

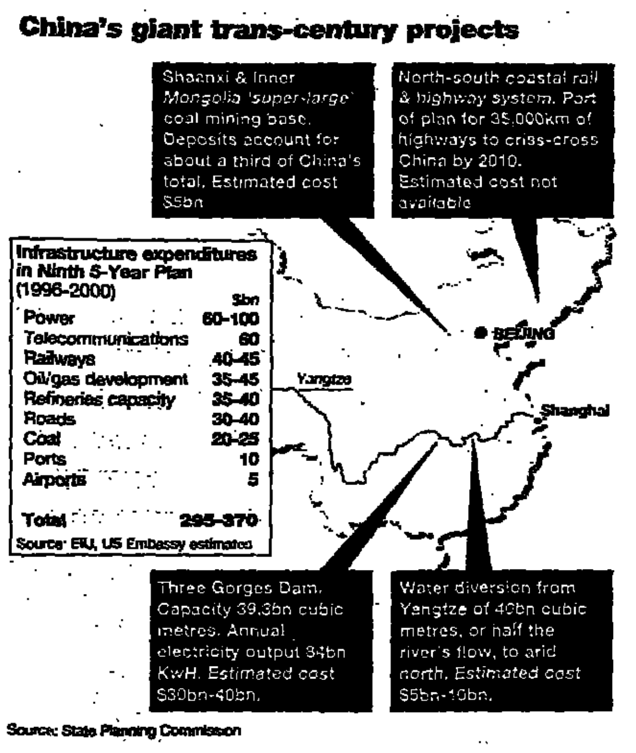
The infrastructure programme may not find all the funds needed, writes Tony Walker

China's economic planners could not be accused of thinking small in the new Ninth Five-Year Economic Plan approved by the parliament at the weekend, which includes a number of so-called "trans-millennium" projects that would test the resources of even the most developed countries.

China has not provided details of total investment required between 1996-2000, but estimates by the World Bank, among others, put requirements at between $280bn (£185bn) and $370bn. Investment flows will depend to an extent on China's ability to absorb available funds.

The four most ambitious projects include the scheme to dam the Yangtze River below the Three Gorges at an estimated $30bn-$50bn; a scheme to divert water from the Yangtze to China's arid northern regions at a cost of $5bn-$10bn; the development of a coal production and power generating base in Shaanxi province and neighbouring Inner Mongolia for about $5bn; and a coastal road and rail system linking northern Heilongjiang Province with Guangdong in the south. The first stage would join China's northern provinces with Shanghai's 500 sq km Pudong development zone.

China's giant trans-century projects



Infrastructure expenditures in Ninth 5-Year Plan (1996-2000)	$bn
Power	80-100
Telecommunications	60
Railways	40-45
Oil/gas development	35-45
Refineries capacity	35-40
Roads	30-40
Coal	20-25
Ports	10
Airports	5
Total	295-370

Source: EIU, US Embassy estimates

Source: State Planning Commission

Funding for these and dozens of other projects in the plan, including power stations, telecommunications facilities, railways, oil and gas projects, highways, coalfields, ports, airports and refineries, will come largely from China's own resources, but Chinese officials are banking on 15-20 per cent coming from foreign sources.

Foreign investors in Chinese infrastructure say that despite China's appeal as a destination for such investment, it will not find it easy to attract funds required, given the magnitude of the task. China has also lost some of its lustre in the past year or so as a magnet for infrastructure equity investment.

"A long payback period with no ready source of foreign exchange, concerns about China's legal structure, enforceability of contracts, the cumbersome approval process – these factors all work against foreign equity participation in infrastructure projects, particularly in the road, rail and power stations," said a western official in Beijing who monitors the infrastructure sector.

In Hong Kong, Mr Will Liley, head of The Asian Infrastructure Fund, a private investment fund based in Hong Kong, said China was facing increased competition for risk capital for infrastructure from countries such as India and Indonesia and from eastern Europe. He noted that not a single power station deal had been reached in China for 18 months, because China had been slow to develop a competitive regulatory framework for equity participation in such projects.

"Investors have voted with their feet. They are very cold-eyed," he said.

But at the same time, Mr Liley's fund is investing in toll road and bridge projects that are mushrooming across China as the country seeks to rebuild its antiquated road system.

Ports are another popular destination for foreign funds, but railways are less appealing, since they are heavily regulated and capital-intensive. The Asian Infrastructure Fund has invested some $200m in power, roads, bridges and ports.

China's own spending on infrastructure continues to be constrained by a credit squeeze imposed in 1993 to calm an overheating economy. A shortage of central government finance means both the centre and local government are obliged to find creative means of funding.

Domestic sources include revenue from operations themselves, local government funds, bank loans, domestic bonds and local equity investment. Power-sector utilities are listed on China's two stock exchanges, and other infrastructure companies are certain to follow.

China's State Development Bank, established in 1994, is beginning to make its presence felt. The SDB is a prime lender to the controversial Three Gorges projects – international environmental groups lobbied successfully against World Bank and US Eximbank assistance – but it is also active across a broad range of infrastructure projects. It expects its loan book to run to Yn600bn ($47bn) by the end of the decade.

SDB, which was set up to assume some of the policy-lending responsibilities of China's "big four" specialised banks, this month made its first foray into the international bond market with the issue of Y30bn in 10-year samurai bonds.

Funds will be used for the second phase of the Daya Bay nuclear power station in southern China, and power plants also in Liaoning province and in Inner Mongolia.

A recent seminar sponsored by the World Bank and State Commission for Restructuring the Economy heard China's requirements for foreign funds for infrastructure would total some $9bn-$15bn annually for the next five years.

China hopes that much of this funding will come in the form of soft loans from sources such as the World Bank, which is providing about $3bn annually, the Asian Development Bank and Japan's Overseas Economic Co-operation Fund.

Export credit lending is another important source of funding; however, use of these funds has slowed because of China's unwillingness to provide bank guarantees in many cases.

Beijing, if it is to secure the funds necessary for its ambitious infrastructure programme, may be obliged to be more accommodating of foreign investors, especially in the power sector. The alternative is to fall well short of its development targets, thus reinforcing bottlenecks in its economy.

Editorial Comment, Page 15

Imports growth cuts Japan trade surplus by 46%

By William Dawkins in Tokyo

The continued growth in Japan's appetite for imports was the main factor in a decline of nearly 46 per cent in its trade surplus in the year to last month, the eighth monthly decline running.

Formerly export-obsessed Japan yesterday reported a gap of just $6.1bn (£4bn) in February, slightly above market estimates and sharply down on the $11.3bn of the same month last year. Imports grew 16.8 per cent, according to preliminary figures from the finance ministry.

It was the 36th consecutive month of increased imports and took place despite the weakness of Japanese consumer demand for most of that period.

This is evidence, Tokyo economists say, that the rise in imports is structural, rather than a passing phenomenon.

"There is a genuine underlying trend, partly driven by the growing number of Japanese companies which produce more goods abroad and re-export them back to Japan, as well as by the simple increase in cheaper imports," Ms Mineko Sasaki-Smith, chief economist at Morgan Stanley in Tokyo, said.

Finance ministry officials said they expected the surplus to fall further, though many private-sector economists believe the rate of decline will ease in the next few months in response to the strengthening of the dollar against the yen since last summer.

Exports dropped by 3.3 per cent in the 12 months to February, the first fall in three years, attributable to a one-off correction from unusually high overseas sales in February last year. This was when Japanese exporters were rushing to catch up on deliveries delayed by the January 1995 Kobe earthquake.

But compared with January this year, overseas sales rose by the same amount, 3.3 per cent, a pace of growth which reflects weakness of demand in the US and Europe, economists said.

Among imports, the fastest selling foreign-made goods were semiconductors and other electronic components, up nearly 69 per cent year-on-year, while imports of office equipment, including computers, rose 59 per cent.

Japan's surplus with the US dropped 30 per cent to $3.4bn, a figure likely to evoke satisfaction in Washington as officials prepare for next month's summit between President Bill Clinton and Mr Ryutaro Hashimoto, Japan's prime minister, who is noted for his hard line on trade.

The surplus with other Asian countries, on a long-term rising trend, also dropped, by almost 39 per cent to $3.8bn, the second monthly decline.

The main feature in that was a sharp drop in exports of video equipment to Asia, a consequence of a recent increase in Japanese companies' off-shore production.

Barriers fall to import invaders, Page 15

Japan's broad M2 money supply rose 2.8 per cent in February from a year earlier, after expanding 3.1 per cent the previous month, the Bank of Japan said yesterday, AFP reports from Tokyo. M2 is the broadest measure of total money supply, comprising cash in circulation, deposits in bank accounts as well as quasi-money, including time deposits and treasury bills.

M1, or cash in circulation, rose 16.0 per cent in February after rising a revised 14.7 per cent in January. Preliminary data had shown a 14.8 per cent rise in M1 for January. Certificates of deposit rose 45.0 per cent year-on-year in February, after rising a revised 32.7 per cent in January. Preliminary data showed a 30.6 per cent rise in CDs in January. A BoJ official said M2 plus CDs retained a modest rising trend, in line with the gradual domestic economic recovery.

Queensland ends NSW power plan

By Nikki Tait in Sydney

A new conservative coalition government in Queensland yesterday axed a A$300m ($232m) power project which would have linked the state's electricity supply to that of neighbouring New South Wales, a move which runs counter to Australia's efforts to establish a national electricity grid.

Traditionally, generation and supply of electricity have been state-based responsibilities in Australia, and over-investment has tended to lead to excess capacity. More recently, a few interconnections have been established between southern and eastern states. Plans to establish a competitive "national" market, albeit based initially on just four states and territories, have been delayed.

The so-called Eastlink proposal, which involved constructing a 400km transmission line across the state border, would have seen Queensland buy excess NSW electricity by the late 1990s. But the plan was vigorously opposed by some residents in south-east Queensland concerned about the environmental impact, the effect on farming and property values and a possible health risk from electromagnetic fields.

Yesterday, Mr Rob Borbidge, new leader of the Liberal-National coalition government in Queensland, said his administration did not believe "the answer to Queensland's electricity supply problems lies in putting an extension lead across the border so that we become totally reliant on (NSW's) Labor government to keep the lights on at home".

ASIA-PACIFIC NEWS DIGEST

Irian Jaya riots close to capital

Hundreds of people rioted near the Irian Jaya capital of Jayapura yesterday, following the arrival for burial of the body of Thomas Wapai Wainggai, a separatist Irianese leader, who died in a Jakarta jail last week. The rioting followed violence last week in and around copper and gold mines in Timika and Tembagapura, about 600km from Jayapura. A military official in Jayapura said rioters had burned buildings in Abepura, south of the provincial capital, and damaged stores and vehicles. Three people died in the violence.

Mr Wainggai, an Irianese anthropologist, was jailed for 20 years for subversion in 1988 for proclaiming an independent Melanesian state in Irian Jaya. He is believed to have belonged to the Free Papua Movement, the most prominent of a number of groups in Irian Jaya which advocate an independent state of West Papua. *Manuela Saragosa, Jakarta*

Indian court bails politicians

Two senior Indian politicians and three other suspects were granted bail yesterday by a special court trying a bribery scandal which has tainted virtually all of the country's political parties. Judge V B Gupta gave bail to Mr Madan Lal Khurana, former New Delhi chief minister, Mr Harmohan Dhawan, former minister of state for civil aviation, businessman Mr B R Jain, and two senior bureaucrats. from a state-run company.

The scandal is a major blow to the ruling Congress party and the main opposition Bharatiya Janata party. Mr Khurana, the first BJP chief minister of New Delhi, was forced by party bosses to resign. Most of the 24 people charged in the scandal have denied any wrongdoing, accusing rivals of trying to smear their reputation ahead of an upcoming general election. *AFP, New Delhi*

Retail prices up 7.7% in China

China's retail price index was up 7.7 per cent in February against the same month last year, marginally higher than the 7.6 per cent registered in January. The State Statistical Bureau attributed the pick-up to the spring festival holiday in February, a time of banqueting and family reunion. "Prices are pushed up by strong demand during the festival every year, with prices of a large proportion of goods becoming market-driven," a bureau official said. *Tony Walker, Beijing*

■ Vietnam's trade deficit was $594m in the first two months of the year, up 35 per cent from the same period of 1995, according to preliminary figures. *AFP, Hanoi*

■ Mr Khamtay Siphandone, Laotian prime minister, addressing a congress of the Lao People's Revolutionary party set a goal of 8 to 8.5 per cent annual economic growth up to 2000. *Reuter, Vientiane*

Arrest steps up bureaucratic feud in S Korea

By John Burton in Seoul

Bureaucratic turf battles in South Korea can be a nasty business. Consider the case of Mr Lee Chong-hwa, a senior official at the country's Fair Trade Commission, who has been arrested on corruption charges.

State prosecutors have raised suspicions that Mr Lee and other officials at the FTC may have unusually close relations with the big business groups they are supposed to regulate.

But FTC officials suggest the case against Mr Lee may be part of a campaign by prosecutors to gain the right to investigate economic violations that is now the sole preserve of the FTC.

Whatever the truth of the matter, Mr Lee's arrest has intensified a feud between the agency and prosecutors over who should have the authority to punish antitrust violators.

Mr Lee, head of the FTC's antitrust bureau, was charged last week with allegedly accepting Won32m ($41,000) in bribes from Hansol Paper, South Korea's largest paper company, in 1994 and 1995.

The incident has increased criticism that the FTC has proved ineffectual in curbing the growth of the country's main industrial groups, or chaebol, that dominate the Korean economy.

Hansol Paper, for example, has expanded rapidly by acquiring paper, finance and electronics companies since it separated from the giant Samsung group in the early 1990s.

The debate about the FTC's performance has grown after the agency was recently given ministry-level status to strengthen its power over chaebol activity.

Some economic analysts believe that Mr Chung's arrest reveals the dangers of allowing the FTC to monopolise regulation of the chaebol since it helps create the conditions for possible corruption.

Critics charge that the FTC has concentrated on minor economic violations, such as misleading advertising and questionable consumer marketing methods, instead of devoting full attention to reducing the economic power of the chaebol by investigating unfair trade practices.

The Supreme Public Prosecutors' office argues that it should be given independent authority to pursue illegal economic activity. However, the FTC believes that state prosecutors lack the experience of regulating business activity.

South Korea's former president Chun Doo Hwan yesterday denied charges of mutiny during his trial yesterday while protesters demanded he receive the death penalty, Reuter reports from Seoul. Mr Chun sat next to his successor, Mr Roh Tae-woo, to answer charges stemming from a 1979 military coup which brought him to power for eight years. "No," said Mr Chun when asked by prosecutors if the elite military group he then headed had planned to seize control of the armed forces by arresting General Chung Sung-hwa, then army chief of staff.

NEWS: UK

Referendum on EU 'might be binding'

By Bruce Clark, Diplomatic Correspondent

Mr Malcolm Rifkind, the foreign secretary, suggested yesterday that a referendum on British membership of a European economic and monetary union could be binding in practice, even though it would be advisory in theory.

The suggestion emerged at a hearing of the House of Commons foreign affairs committee. Other senior members of the government said privately that the decision on whether to hold a referendum was unlikely to be announced this month. This delay will disappoint Eurosceptics in the governing Conservative party. They had hoped that a referendum pledge might coincide with the party's central council on March 30. A pledge then would come one day after the start of inter-governmental conference on European Union reform in Turin.

Mr Rifkind insisted that the government had not come to any decision about whether, or on what basis to hold such a ballot. He dismissed as "entirely incorrect" reports that he was advocating a purely consultative status for the poll. He declined on elaborate on the government's earlier promise to announce the results of its internal deliberation over a referendum "in weeks rather than months."

Pressed to clarify his reference to an advisory poll in a weekend television interview, he said he had merely listing questions which had to be addressed and was not recommending any option.

These questions included the legal status of the poll, the wording of the question and the implications for cabinet members.

He noted, however, that "in all previous referendums, it has been deemed constitutionally necessary for the legal status to be advisory because [otherwise] it would conflict with the sovereignty of Parliament . . . but governments have always indicated that they would in practice accept the outcome."

Urged by Mr Peter Shore, the Labour Eurosceptic former cabinet minister, to "come off the fence" and make a clear statement of opposition to a European currency, Mr Rifkind said Britain's interests were already secured by the opt-outs negotiated by the government. "I do not see any British interest in trying to pre-empt the decision," he said.

Mr Rifkind confirmed that he had opposed Labour's 1975 referendum on Britain's membership of the European Community because he saw no need to reopen a decision which Parliament had already been taken.

But that did not mean he was against the idea of a referendum in principle. "In a mature democracy, such as the United Kingdom is, there can be certain issues which cannot be resolved through a general election because there is not the clear division of opinion between the two main parties," he explained.

Mr Rifkind said the issue of monetary union was unlikely to be raised at the forthcoming IGC. He said Britain would resist efforts by other EU governments to address the problem of unemployment through treaty changes because London did not believe this was the right way to create jobs.

Clarifying the government's pledge to put animal welfare on the IGC agenda, Mr Rifkind said this would not mean enhancing the power of the European Commission.

The government simply wanted a protocol which would instruct the Commission to respect animal rights in those areas, such as the single market and farming, which it already oversees.

Meanwhile, the pro-European wing of the Conservative party maintained its pressure on the government. Mr Quentin Davies, a leading Euro-enthusiast, argued that if the UK stayed out of a single European currency, it would cost the average British householder £10 ($15.30) a week.

Commissioner enters fish dispute

By Alison Maitland in London

Britain could curb the problem of "quota hopping" in its fishing industry by adopting schemes used by other member states, Ms Emma Bonino, the EU fisheries commissioner, said yesterday.

Ms Bonino, who had just completed a weekend visit to fishing communities in Scotland and south-west England, said the government could impose conditions on those registering to fish in UK waters.

They could be required to land part of their catch in a particular port or to visit the port at least 10 times a year. Or they could be obliged to apply British social security rules in employing their crews.

Ms Bonino discussed these options with Mr Tony Baldry, UK fisheries minister, yesterday in response to the European Court's ruling on March 5 that Britain should pay compensation to non-UK fishermen for illegally banning them from UK waters between 1989 and 1991 in an effort to stop quota-hopping.

Quota-hopping is when fishermen register in another member state to take a share of that country's fishing quota.

"The European Court of Justice ruling doesn't automatically link vessel registration with quota," said Ms Bonino. "You can, in a non-discriminatory way, put conditions on the allocation of quota."

There are just under 150 non-UK fishermen now holding British quotas. About 100 are Spanish, 40 Dutch and the rest Belgian, according to the UK agriculture and fisheries minister. They represent about 20 per cent of the beam trawler fleet – larger vessels fishing offshore. The number has risen from fewer than 100 in 1988.

Spanish fishermen are particularly keen to take advantage of UK quotas for hake, monkfish and megrim, a round fish, in western waters off Britain. British fishermen say the fish goes straight to Spanish markets.

The British government argues that there is a conflict between the single market and nationally allocated quotas, highlighted by the quota-hopping issue. It is proposing a possible change to the Treaty of Rome to enable British fishermen to enjoy the full advantage of UK quotas.

But senior Commission officials are understood to be unclear what the government intends to achieve by raising the issue at the EU intergovernmental conference, given that the white paper published last week is short on detail.

They are also critical of the UK for not taking advantage of co-funding offered by the Commission to pay fishermen to leave the industry between 1986 and 1995. Instead of being paid by the government to quit, some smaller fishermen sold their licences, enabling foreign trawler owners to make further inroads.

Ms Bonino acknowledged yesterday that quota-hopping was a problem, but added: "If the fishing industry believes that by eliminating quota-hoppers they'll solve their problem, they're wrong . . . particularly in the UK there's a need to reduce the overcapacity of the fleet."

Emma Bonino prepares to meet protesting fishermen at the harbour of Newlyn in the far south-west of England

Government set to overshoot borrowing target

By Gillian Tett, Economics Correspondent

The government seems set to overshoot its target for public borrowing this year, after it collected less tax than expected in February while spending more than it planned.

The likely overshoot casts fresh doubts on the government's ability to provide significant tax cuts before the general election which must be held by May next year.

But with one month of statistics left until the end of the financial year on March 31, some economists hope that the picture will improve if departments cut spending this month.

The downbeat news on public finances was partly offset yesterday when the Bank of England, the UK central bank, said the government would reach its inflation target. Mr Eddie George, Bank governor, said in Stockholm that the Bank "currently expects to meet the [inflation] target of 2.5 per cent or less through 1997".

His comment is the first public hint that the Bank supported the decision earlier this month by Mr Kenneth Clarke, chancellor of the exchequer, to lower interest rates from 6.25 per cent to 6 per cent.

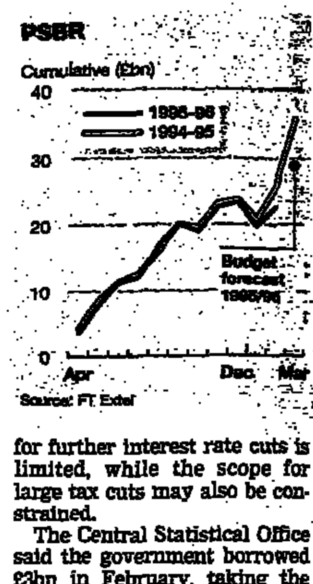
Nevertheless, with an election looming, the City of London now suspects that room for further interest rate cuts is limited, while the scope for large tax cuts may also be constrained.

The Central Statistical Office said the government borrowed £3bn in February, taking the total public sector borrowing requirement (PSBR) for the financial year to £22.6bn. This level was fractionally lower than the City expected, and better than last year.

But the figure was flattered by proceeds from privatisations. Without these, the PSBR in February was £4.4bn compared with £5.1bn the previous year.

The underlying trend cast doubt on the government's ability to meet its target of reducing the PSBR to £29bn this year from £35.9bn last year.

PSBR



Source: FT Extel

Charm fails to compensate for dirty bathrooms

By Roderick Oram, Consumer Industries Editor

Small hotels are long on charm, attentive staff and efficient billing systems but short on clean bathrooms, good mattresses, staff training and simple managerial controls.

The description came yesterday in a government document designed to help improve standards in hotels with fewer than 50 bedrooms.

The report, by the national heritage department, was criticised for its limited scope by the National Council of Hotels Associations, an umbrella organisation for groups representing small hoteliers. "The sampling was utterly and absolutely ridiculous," said Mr Fernley Smith, president of the council and a former hotelier. "Thirty of the hotels were in London and the other 40 in the country. But there are 40,000 to 50,000 small hotels, guesthouses and bed and breakfasts." The small sample made it "difficult to take the findings seriously".

High rates of value added tax and uniform business rates were reasons why small hoteliers sometimes could not afford the investment needed to meet standards, he added.

A particular strength of small hotels was "the personal touch they can provide", said the Department of National Heritage. But consumers wanted "reassurance that individuality does not mean unreliability".

The department examined facilities, service and business practices such as marketing and training.

Running hotels popular with customers was no guarantee, however, that the enterprise was managed on a business-like basis, it said.

Training was the weakest area. Only 30 per cent of the hotels had formal training, although 85 per cent had some informal version. Only 25 per cent of managers had been trained. "Small hoteliers have great potential to improve their revenues if they undertake some training," said Mr Stephen Harwood-Richardson, the research manager of the Hotel and Catering Training Company. The organisation draws up standards for national vocational qualifications in the hospitality sector.

The 10 hotels that scored best on training also scored high on service and achieved an annual revenue per room 40 per cent higher than average.

Less than 50 per cent of those sampled had any written form of procedure for staff. Maids, for example, had no checklists for bedrooms and public areas. This was a reason why hotels tended to score badly on general cleanliness, one of the main factors by which customers evaluated hotels.

Bathrooms were singled out in the report. Fixtures and fittings were normally workable but often in poor condition. Loose tiles, worn carpets, dampness, poor maintenance and inadequate ventilation were often cited by customers. In public areas, common shortcomings were dusty furniture and stained carpets.

The 10 hotels that scored best on service and business skills had an average revenue per room of £20,400 a year compared with average revenue of £13,200.

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NEWS: UK

Longshoremen's chief says employers prefer cheap labour to experienced stevedores

US injunction sought against dockers

By Ian Hamilton Fazey, Northern Correspondent

Mersey Docks and Harbour Company is seeking an injunction in the US against 329 dockers whom it sacked nearly six months ago. The aim is to prevent them from trying to organise a boycott of the port of Liverpool in north-west England by ships calling at US ports.

Mr John Bower, leader of the International Longshoremen's Association on the US eastern seaboard, spoke to the 329 in Liverpool last week and promised personal support.

Mr Bower told a radio station in north-west England that the Liverpool dockers' fight had echoes around the world where employers were trying to replace experienced stevedores with lower-paid workers.

The injunction was sought last week by Sher & Blackwell of Washington, the company's US legal representative, from the National Labour Relations Board in New Jersey. The board is a court with powers to prevent unlawful industrial action. Mersey Docks is arguing that, because secondary picketing is illegal in the UK, the men should not be allowed to do it in the US.

The action is designed to reduce pressure on Atlantic Container Lines, Liverpool's largest container customer. The sacked men succeeded in delaying an ACL ship in New Jersey by one tide last November.

This prompted ACL to consider pulling out of Liverpool if the dispute was not settled. But the threat was suspended when talks were arranged between Mersey Docks and Mr Bill Morris, general secretary of the Transport and General Workers' Union in Britain.

But the 329 last month rejected the offer negotiated by Mr Morris, which was for 40 jobs and an £8m ($12.2m) severance deal for the 289 men who were not offered jobs. The 329 have demanded full reinstatement and they also want a replacement workforce of about 150 men to be sacked.

The 329 were sacked by Mersey Docks last September when they refused to cross a picket line set up by 80 other dockers who had lost their jobs when Torside, an independent stevedoring company, ran into financial problems.

Forbes idea is still in the race

Conservative MP Nigel Forman on the rate at which a flat tax could be implemented in Britain

Mr Steve Forbes, the US publisher, may have pulled out of the race for the Republican presidential nomination. But his idea for a radical reform of the tax code and the introduction of a single rate of income tax is unlikely to go away.

His programme would mean sweeping away all reliefs and tax breaks except for a generous personal allowance, and then levying US federal income tax at a single rate of 17 per cent.

The idea was originally put forward by Robert Hall and Alvin Rabushka, two Stanford University academics, in a book entitled *The Flat Tax*.

Since then it has been endorsed with varying degrees of enthusiasm by Bob Dole, the clear frontrunner for the Republican nomination, Newt Gingrich, speaker of the House of Representatives, and even some leading Democrats. In the US, it appears to be an idea whose time has come.

There is an equally strong case for a flat-rate tax in the UK, even if the chancellor who introduced it insisted on being cautious with its initial effects on public borrowing.

It would be possible to change to a flat-tax regime without reducing tax revenue by setting the rate at an initial 23 per cent and permitting an indexed-transferable allowance of £5,000 per person. All other expenditures, exemptions and reliefs allowable against income tax would be abolished.

Most income taxpayers would gain something from such a move, even those who currently pay tax only at the 20 per cent rate. This is because the increase in their rate would be offset by the larger allowance.

If tax relief on employers' contributions to pension schemes and on investment income in pension funds were also abolished, a further £8bn would become available with which to cut tax below 23 per cent without sacrificing revenue neutrality.

There are several strong arguments for moving to a flat-tax system.

The first advantage would be much greater simplicity. At present, there are three income tax rates and at least 30 reliefs and exemptions. The planned introduction of income tax self-assessment in 1997 means a move to simplify the present system would be timely and helpful to individual taxpayers faced with having to make their own tax calculations.

At present, there are three income tax rates and at least 30 reliefs and exemptions

The second advantage would be greater efficiency and cost-effectiveness. A simplified income tax structure would result in lower Inland Revenue overheads and reduced private-sector compliance costs.

There is, moreover, a high probability that more tax revenue could be raised from a flat-tax regime than from the present system, riddled as it is with tax shelters and economic distortions.

This is because there would be less incentive than at present for relatively wealthy individuals to go legitimately to great lengths to avoid tax.

The third advantage would be the enhancement of the UK's competitive position in the global economy. With growing competition between different tax and regulatory jurisdictions, it is in the UK's interests to have a simple and attractive income tax system.

The simpler the system, the more likely we are to attract and retain mobile and enterprising individuals who might otherwise decide to create wealth and jobs elsewhere.

The fourth advantage would be a significant reduction in the opportunities for economic and social engineering by ministers, often at the behest of importunate interest groups.

Such opportunities have been taken by chancellors of both main parties seeking, via mechanisms of tax relief, to encourage or reward various sectors of economic activity and forms of social behaviour.

It is widely recognised that such manipulation of the tax system has narrowed the tax base, created economically harmful distortions and led millions of people to make a range of decisions on the basis of how best to minimise the amount of tax they pay, rather than other more positive considerations.

Moreover, as long as the personal allowance is pitched at a high enough level, lower income taxpayers would continue to enjoy a significantly lower average rate of tax than higher income taxpayers.

A flat-tax regime organised along these lines would, in short, offer British taxpayers a fairer system of income tax in which greater attention was paid to the effective rate of tax rather than to marginal rates.

Proposals for a flat-tax rate would, nonetheless, be highly controversial in the UK. The scope of such a reform would, therefore, need to be bold and radical for politicians and the public to be convinced that the game was worth the candle.

To give it the necessary legitimacy, the idea ought to be put in the next Conservative general election manifesto.

It could then be introduced in the first Budget of the new parliament.

The author is Conservative MP for Carshalton and Wallington and a member of the House of Commons Treasury committee.

Government plan may increase deportations

The government is considering plans to increase the number of people deported from Britain by the Immigration and Nationality Department by making it an executive agency and setting tough new targets, James Harding writes at Westminster.

The proposal, being considered by ministers, would give the department executive agency status, rewarding managers for meeting targets on the numbers deported. The proposals are intended to improve the efficiency of the deportation service, which now removes from the UK fewer than 10 per cent of failed asylum seekers. The rest either disappear in the UK or reapply.

The move is likely to prompt concern about the accountability of the service and fears that incentives could encourage deportation officers to remove applicants during their appeals.

In 1994 there were 32,800 asylum applications, as a result of which only 4,500 people were allowed to stay in Britain and 1,580 were deported. A Home Office official said: "About two-thirds of the people are unaccounted for because they either restart the appeal process or disappear". Deportation was used only in the last resort and very rarely, the official added.

UK NEWS DIGEST

Boy of 14 held over guns theft

A runaway schoolboy was being questioned by police after the theft of four guns from a pensioner's home. The 14-year-old was detained peacefully, along with a boy of 16 at a house in High Wycombe, 50km west of London. The four weapons – two .22 calibre rifles and two .22 calibre handguns – had been stolen from a 67-year-old man on Friday after the boy's disappearance. Armed police spent the weekend hunting for the boys.

The incident comes less than a week after 16 schoolchildren and their teacher were killed at Dunblane in Scotland. About 500 people yesterday attended the funerals of two five-year-old girls, the first of the victims to be buried.

PA News

Ruling against former executives faces challenge

THE BARINGS COLLAPSE

At least one of the nine former Barings managers charged with misconduct by the Securities and Futures Authority is ready to refuse a settlement and take his case to a tribunal to force the debate about the merchant bank's collapse into the open. The executive, who did not wish to be named, said that he was meeting his lawyers next week and was prepared to contest the SFA's charges that he had failed to act with "due skill, care and diligence" before the disaster.

Some of the nine said that the SFA, by focusing on action rather than inaction, had singled out those attempting to reorganise a chaotic institution and had cleared others who maintained a rarefied detachment. The nine executives include Mr Peter Norris, the former chief executive of Barings Investment Bank, and Mr Ron Baker, the former head of the financial products group.

Nicholas Denton, Financial Services Staff

Sulzer switches work from Germany and Switzerland

Sulzer, the big Swiss engineering group, is switching some of its manufacturing and test operations from Germany and Switzerland to Britain after a review of production costs. The move is benefiting Sulzer's plant in the northern England city of Leeds. The plant is one of Britain's biggest pump manufacturing factories, and employs nearly 400 people.

Sulzer's action applies to its division which makes pumps and related products such as compressors – which has annual worldwide sales of about SwFr1bn, making the company one of Europe's five biggest pumpmakers. The company found that manufacturing costs per employee in Leeds were less than half those in Switzerland and about 40 per cent below costs in France and Germany.

Peter Marsh, Industry Staff

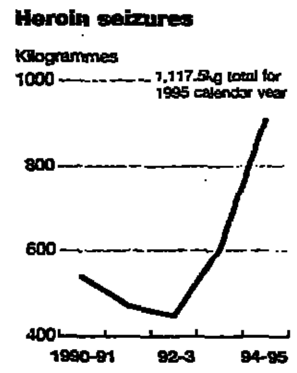
BBC channel returns to Asia-Pacific region

The BBC is returning to the Asia-Pacific region with BBC World, its 24-hour satellite news and current affairs channel, two years after being removed from Mr Rupert Murdoch's Star TV system based in Hong Kong. BBC Worldwide, the corporation's commercial arm, has signed a deal to broadcast from the US-owned Panamsat 2 satellite. Coverage by the satellite includes China, but because the BBC has leased digital capacity it is very unlikely that viewers in China will be able to watch. Digital satellite receiving equipment is not available.

Raymond Snoddy, Consumer Industries Staff

Drug seizures by Customs officers reach records

Heroin seizures



Source: Customs & Excise

Customs officers seized a record 55.6 tonnes of drugs in England and Wales last year while the police arrested more than 2,000 people on drug-related charges. The drugs included 52.5 tonnes of cannabis, more than 1 tonne of heroin and 500 kg of Ecstasy. The largest increase was in heroin use, which jumped from 620.5kg in 1994 to 1,117.5kg, a rise of 80.1 per cent. Mr David Heathcoat-Amory, minister responsible for Customs, said all amounts were records for a single year and the drugs would have realised a total street value of £457.6m. He also said that the department was restructuring its anti-drug operations.

Mark Suzman, Public Policy Staff

Daewoo may open factory in Northern Ireland

Daewoo, the South Korean industrial conglomerate, has linked with Texas Instruments of the US for a possible $1bn semiconductor investment in Northern Ireland. Daewoo is understood to be talking to a number of regional development agencies in the UK and Ireland as part of its strategy to localise its manufacturing and marketing in Europe in the rapidly growing semiconductor market. But Northern Ireland is understood to be the frontrunner, with a number of Korean companies already established in the province. The Daewoo–Texas Instruments project would be the first big chip plant in the province.

John Murray Brown, Dublin

Engineering and technological advances mean greater vehicle road safety, write **Andrew Baxter** and **John Griffiths**

Computer's dummy run

After years of being driven into walls to satisfy car industry designers and safety regulators, crash-test dummies are to get new "virtual" playmates.

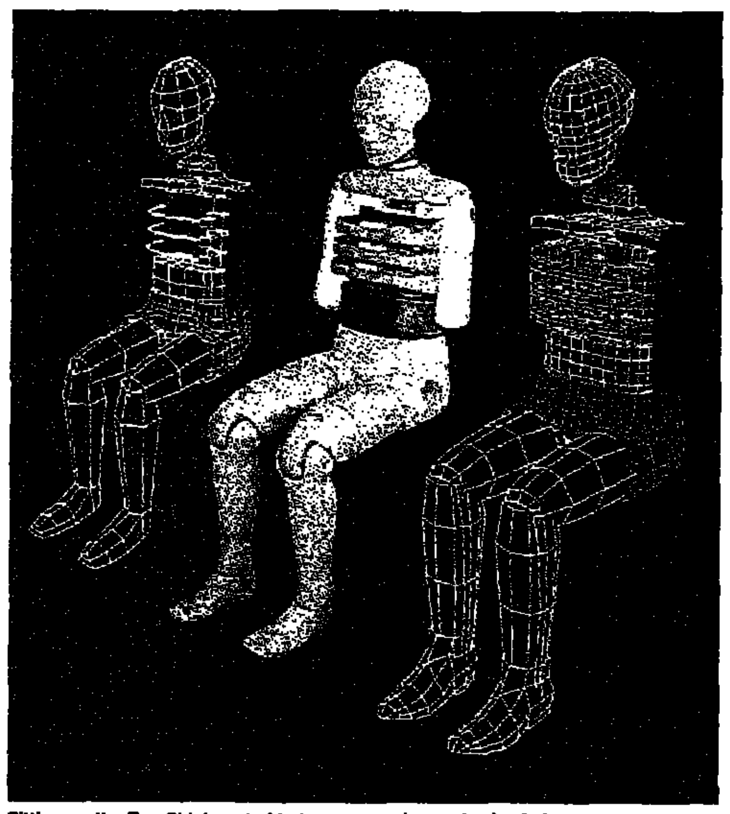
A family of computer-simulated dummies is about to hit the streets, metaphorically speaking, as a result of a link-up between Michigan-based First Technology Safety Systems, the world's largest producer of crash test dummies, and Ove Arup, the UK engineering consultancy.

Both companies stress it is not the end of the road for the traditional crash test dummies, which have been painstakingly developed by a traditional craft industry over the past three decades.

But the development does represent the removal of one of the last barriers to computer simulation in the automotive industry, which has already enabled engineers to predict and develop everything from noise levels to crash performance before the first prototype has been built.

Consequently, the new virtual family is being viewed with considerable interest in the car industry, says John Miles, Arup's director with responsibility for advanced technology activities. Car designers will be able to pick up a standard file of a dummy from their computer file library just as they would for parts of the car, says Muir Parker, chief executive at UK-owned FTSS.

Already, the performance of parts such as airbags and seat belts can be simulated on computer, but crash test dummies are one of the most complex structures to model. They are made of steel, aluminium, vinyl, rubber, foam and shock absorbers, and the behaviour of each of these materials in a crash has to be accurately described to the computer so that the response of the whole dummy can be calculated and analysed. The soft materials are particularly complex because they behave differently at different speeds.



Sitting pretty: EuroSid-1 seated between two electronic simulations

Months of painstaking work is required for testing the dummy components to ensure the simulation is accurate. The head, for example, is dropped on to a steel plate and the responses measured and compared with the model. The process combines FTSS's dummy expertise with Arup's analytical skills to produce the models using finite element analysis, one of the most important computer simulation tools.

At first glance, the approach looks to be a distinct second best to simulating a human being. But the crash test regulations are framed in terms of dummy responses, because it would be impractical to calibrate human beings for this purpose. As a result, it is correlation between the computer simulation and the dummy behaviour which the car industry requires.

"Some crude computer models of dummies have been developed before, but everybody's is different," says Parker. By using the new standard family, the variability introduced by "getting someone down the street to design a software dummy for you" will be reduced, he says.

Simulating the occupant – or at least a dummy – will also allow calculations of the effects of a crash to be made on the person, says Tim Keer, Arup's project manager, rather than on the car as happens currently. "You would be able to say that the driver's ribs have been compressed by 30mm, rather than that the impact on the car was a 4in dent."

Before their association with FTSS, Arup had already designed a simulation of EuroSid-1, the new European side-impact dummy. This was done for a US/European/Japanese consortium of companies led by the UK Transport Research Laboratory.

Arup's first computer models for FTSS will be the small, medium and large person front-impact dummies known as the Hybrid III family. These are due to be available by this summer, and the intention then is to extend the virtual family into FTSS's side-impact dummies and child dummies.

Keer says it is inconceivable that the car industry would move exclusively to computer-simulated crash-testing, but the simulated and physical versions are very complementary. Parker, too, views the simulated dummies as an opportunity rather than a threat to their physical counterparts, as they will have different uses.

The simulations will be used at the early stages of the design process, he says. They could be used to simulate how the airbag functions before any parts have been built. Real testing would be reserved for later design stages as the vehicle moves towards production.

The simulated dummies could play an important part in reducing the cost and time associated with new vehicle development. At present, a car manufacturer will build many prototypes and pre-production vehicles to validate a new design before committing to production. Of these, 30 or 40 will be crash-tested – and some of them will have been hand-built at a cost of more than $1m (£600,000) each.

Looking ahead Parker thinks the lessons learnt from simulating the present range of crash-test dummies will be used to develop the next generation of physical dummies. Meanwhile, he says, simulation can improve the quality of the current FTSS range by offering a way to measure the dummies coming off the production line against their computer equivalents.

Capturing craft skills

Viewed in reverse, the task of simulating a car crash is similar to that of capturing on computer the "collision" between a custom-built tool and a steel sheet to form a pressing.

Making the tooling that shapes the steel is perhaps the most important traditional craft left in the motor industry. Getting the shape right without wrinkling the steel relies on decades of knowledge.

This works well for most of the 200 different pressings needed for the average car body, but a few can take much longer, says Miles. Failure to get it right first time can add to the cost of toolmaking – $30m-$100m (£20m-£65m) for each model – and also hold up production.

But experienced toolmakers are retiring, and the apprentice schemes for training replacements are largely a thing of the past. The way ahead, says Miles, is to capture the toolmaker's skills in some form of "knowledge base" and then supplement this with computer simulation to help the next generation of tooling engineers.

Toolmakers know enormous amounts about what happens to steel when the tool hits it. But the knowledge comes from looking at the end result, while a computer simulation can show the process as it occurs. An obstacle, however, is that simulation is a rather specialised and computer-intensive activity. Skilled toolmakers do not have the time to become computer wizards. Removing the obstacle requires the mystique of supercomputing to be dispelled and replaced with a user-friendly, design-oriented package running on a PC.

Such a product was developed recently by Toronto-based Forming Technologies (FTI). Its PC-based system, FTI Case, has been taken up by North American, East Asian and European manufacturers.

Last year, Arup and FTI decided to evaluate the potential for running their systems "back to back". Working in Detroit with Binderline, a US tooling designer, and Cray Research, the supercomputer manufacturer, the team set to work simulating the formation of one of the most difficult pressings they could find – a pair of wheel arches, shaped back to back and produced on one steel sheet.

The system works with the supercomputer acting as a "big gun" behind the scenes, says Miles. The toolmaker's PC software would pass on a particularly difficult problem to the supercomputer, which would send the answer back via the PC.

Arup hopes the approach will find widespread acceptance within the industry. Most of the leading carmakers already have supercomputers and the simulation software, LS-DYNA3D, is a prerequisite for crashworthiness engineering in any case. So the additional investment would be minimal.

Independent toolmakers would, naturally, borrow time on a supercomputer rather than having to buy one. But, based on past developments in computer power, even the toughest tooling problems could be handled on a PC or workstation by the end of the century, Miles predicts.

Anti-whiplash firmly seated

The next generation of Sweden's Saab cars are planned as the first to be fitted with an "active" headrest system designed to prevent whiplash injuries to the neck in a collision. Such injuries are among the most common in road accidents, usually arising from a rear-end impact.

Developed jointly by Saab and Delphi Automotive Systems, the components subsidiary of General Motors, the system is entirely mechanical and should not have to be replaced or repaired after an accident.

Saab is 50 per cent owned by General Motors, which also has management control, and the system is seen as a useful extra marketing tool, as well as a genuine safety advance, in GM's efforts to revive the Swedish company's sales fortunes.

While the system is expected to make its debut next spring, in the successor to Saab's 9000 range, GM is also planning to introduce it into high-volume European models such as the Opel/Vauxhall Vectra soon afterwards.

Because it is safety-related the system, called Pro-tech, will be made a standard fitment on all new Saab cars, although it is not yet clear how it will be introduced into Opel/Vauxhall ranges.

It works through a simple lever mechanism linked to a pressure plate hidden in the seat backrest. During a rear-end collision, for example, the driver's body is thrust against the pressure plate, forcing the head restraint upward and forward against the head to prevent whiplash movement. It is designed to activate when forces exceed the equivalent of hitting a concrete barrier at 9 to 11 miles per hour. It returns automatically to the "passive" position.

The concept provides another example of the heightened priority that vehicle makers have been giving to safety aspects of cars since the early 1990s, and which has resulted in the virtual standardisation of door anti-intrusion bars and driver's airbags in cars in current production.

"The old idea that 'safety doesn't sell' is dead," says Saab. To complement the anti-whiplash seat Saab, like most other carmakers, is also exploring the provision of airbags to protect against side impacts.

Nor is the current preoccupation with safety expected to fade; not least because it is on the agenda of the Paris-based Federation Internationale de l'Automobile, which covers most of the world's motoring associations and interest groups.

Historically best-known as the governing body for world motor sport, under president Max Mosley, it is being developed into a research and lobbying organisation on behalf of motorists, with safety issues at the top of the agenda.

New EU crash safety barrier tests approved in Brussels last month, for example, are being introduced sooner than the motor industry may have wished, primarily under pressure from the FIA.

Saab's 'active' headrest system is a safety advance as well as a marketing tool

BUSINESSES FOR SALE

'Conceptual' rules the waves

William Packer on the opening Visual Arts UK exhibitions

Visual Arts UK is an ambitious festival of art, old and new, indoors and out, which is taking place across the north of England, from Cumberland to Durham, between now and November. It will include treats as various as the first of the 100 Cumbrian "Sheepfolds" that Andy Goldsworthy hopes to remodel in time for the millennium, and the return of Velasquez' "Rokeby Venus" to the North for the first time since the National Gallery bought it in 1906.

The coast-to-coast "Sustrans Cycleway", with its commissioned sculptures to mark the way, is to be extended. The National Trust's Foundation for Art has put a carving by Peter Randall-Page on the shore at Derwent Water. David Mach is to build a brick railway engine at Darlington as a steam age memorial. There is to be much, much else.

So far, so good. With the Yorkshire Sculpture Park and Grizedale Forest now long established, the North of England is hardly stranger to the idea of putting sculpture into wild and natural places. In this particular respect, there is little controversial or minatory in the programme of *Visual Arts UK*, much that will be readily accessible to a general audience. But clearly the early March weather was too unbiddable, and a gabble of critics thought too delicate, for such a prospect. Safer by far, on a cold wet northern day, to mark the opening view with gallery shows in Sunderland and Newcastle.

But suddenly doubt creeps in, for here is work presented in an oddly authoritarian fashion by those who truly believe they know what is the best, the most significant art of the day. It is there not simply for us to take or leave as may be, but already bought on our behalf.

The Contemporary Art Society is an admirable private institution that has been giving works of modern art to public galleries for over 80 years. The Arts Council is the Arts Council, the Tate the Tate. The first two appoint panels of independent buyers year by year; the Tate has its trustees. And do we still get that independence of interest and judgment which was the informing principle of the system?

No. What we do get is the narrow academicism of avant-garde relevance and radical experiment, that fatuous and blinkered righteousness that elsewhere apparently would wish to remove the Royal Academy from its constituency in its Summer Show.

Here is photo-based work, socio-political work, body work, conceptual work, high ideas, pretension. Colin Nicholas (CAS) has four upright plastic tubes decorated crisply, with the aid of masking-tape, brown, blue, violet and orange. Lately, he tells us, "my studio practice has been exclusively concerned with the investigation of colour-relationships on 3-D surfaces (plastic tube). The medium is acrylic and the visual exploration of its handling is a central concern. The works are abstract and seek to establish a visual resonance which distances the industrial pre-formed section from our knowledge of its utilitarian context." Indeed.

There are, of course, many things worth having, even among the conceptuals – Tony Carter's elegant bottle sequence (CAS), for example, Richard Wentworth's Siamese buckets (Tate), and Cornelia Parker's garden shed and contents, blown up by the Army and every piece hung on its thread from the ceiling (Tate) in a darkened room. There is good, if more orthodox, sculpture from Bill Woodrow and Grenville Davey (CAS), and good abstract painting from Bridget Riley (CAS), Ian Davenport (AC), Callum Innes (CAS), Basil Beattie (CAS, AC) and Gillian Ayres (AC, Tate). The craft too, fine craft as we must call it, is full of interest, from the black wooden bowls and benches of Jim Partridge (CAS, Crafts Council) to the ceramic sculpture figures of Philip Eglin (CAS, CC).

With the magnificent exception of Lucian Freud (Tate), by now safely beyond all curatorial question, what is markedly absent is anything founded in direct observation of the visible world. For the rest, we have only the expressionist response of an Auerbach (Tate) or Creffield (CAS), the narrative compilations of Kitaj (Tate) or Doig (CAS), or the increasingly banal and self-celebratory life-cast figuration of Antony Gormley (Tate).

Simon Lewis paints preciously tiny landscapes (CAS) that any larger would be quite unremarkable. These, we are told, "are references to actual places the artist visits ... where he makes drawings and photographs." Whatever next. Roll on the Royal Academy Summer Show.

Take It From Here – **Contemporary Art Society Purchases 1992-95: Sunderland Museum & Art Gallery, City Library and the Vardy Gallery at the University of Sunderland until April 13; sponsored by Art Services Ltd.** *New for the Nineties* – **The Crafts Council Collection: Shipley Art Gallery, Gateshead, until May 12.** *Ace* – **Art Council Collection, new purchases 1988-96: Hatton Gallery, Newcastle University until April 13, then on tour.** *Tate on the Tyne* – **recent Tate acquisitions: Laing Art Gallery, Newcastle-upon-Tyne, until May 12; sponsored by East Coast Railway.**

Magnificent exception: 'Standing by the Rags' by Lucian Freud, from the Tate Gallery collection

Concerts in London

Russian nights

A decade after the first flush of perestroika, Russian music still has a high profile in the west. Younger musicians such as Valery Gergiev and Mikhail Pletnev have shown an unflagging determination to keep up the momentum – a fascinating case of socialist investment in the arts bursting into life when it meets capitalist freedom of trade.

Pletnev is back in London for a couple of weeks as guest conductor with the Philharmonia. Having first made his name as a pianist, Pletnev founded his own orchestra (the Russian National) in 1990 and now fits in an extensive schedule of conducting a range of European orchestras with his other interests. Everything suggests an organised mind, which his conducting style reflects – clear, sharp, decisive signals asking for disciplined playing to match.

The performances in the first of his three London concerts with the Philharmonia always had technical precision as an objective, even when there were untidinesses on the way. Compared with the Russian conductors of the generation above him, Pletnev is a different kind of musician: not genial or effusive like Rozhdestvensky or Rostropovich, not histrionic like Mravinsky and Svetlanov. Each of those in his own way has worn his heart on his sleeve, whereas Pletnev's music-making is about strict control, both emotional and otherwise.

The programmes which he has with the Philharmonia are exclusively Russian (that is Pletnev's selling-point and either he or the orchestra is sticking to it). This first concert included characteristically brisk and alert performances of Tchaikovsky's Third Orchestral Suite and excerpts from Prokofiev's *Romeo and Juliet*, the latter as vividly characterised as any fully-staged ballet could make it. Despite a driving sense of urgency, Prokofiev's *Alexander Nevsky* wanted the last ounce of concentration to make it gripping. The Philharmonia Chorus found itself overpowered by the orchestra, but Irina Tchistjakova was just the deep Russian mezzo the work asks for.

Two nights later the BBC Symphony Orchestra followed on at the Royal Festival Hall with a concert featuring two truly massive Russian scores. When he was commissioned to write his Second Symphony by the BBC in 1978, Alfred Schnittke must have been told that money was no object. The inspiration for the symphony came from the composer hearing a small choir singing evening mass in Bruckner's church near Linz. In Schnittke's version a similar mass is heard in the distance (the vocal group Polyphony) while a huge orchestra comments on each movement in turn.

After the emptiness of his recent works it is a jolt to be reminded how complex, and sometimes beautiful, Schnittke's earlier music could be. The BBCSO under Dmitry Kitaenko played up the shattering extremes of the symphony to their maximum, though the doubt always lingers that Schnittke's eye for scale was bigger than his inspiration. Kitaenko was then joined by the London Symphony Chorus for Bruckner's *Te Deum* and Scriabin's extravagant *Poem of Ecstasy*. Two-and-a half hours on, the audience had certainly had its money's worth. Is there anybody now other than the BBC who could contemplate such an *ambitious undertaking?*

Richard Fairman

Philharmonia concert sponsored by Motorola. Pletnev and the Philharmonia at the Royal Festival Hall again on March 20.

George Lloyd

Rejected by the New Music establishment, George Lloyd re-emerged into public life during the 1970s after a period of self-enforced silence. On Saturday at the Royal Festival Hall, as hale and hearty as a man half his 83 years, he conducted an inspiring first performance of his newly composed setting of verses by John Donne, *A Litany*, with the Philharmonia Orchestra and one of the indispensable upholders of an endangered but vital British musical tradition, the Guildford Choral society, whose commission it was.

Both those who love and hate Lloyd's music in our knowing, post-modern age will not have been disappointed: *A Litany* celebrates the English choral tradition as confidently as any similar work by Parry, Elgar, and Vaughan Williams. If this poses a problem, it is worth remembering that he conducted his First Symphony two years before the deaths of Elgar, Delius and Holst, composers who would find little in his music that was unfamiliar, and that if his composing career had followed its natural course without interruption we might more easily accept his claim as their natural successors alongside composers such as Finzi or Howells.

Even so, it must be said the basic building blocks of Lloyd's music are much less interesting. His harmonic language is often rudimentary and his melodies predictable, with neither the valedictory quality of a Finzi or the sublimated eroticism of a Howells. His greatest asset lies in his superb handling of the orchestra. Grateful to play, thrilling as sound, (particularly the brass), its rich dressing merely highlights its musically unmotivated rhetoric, nowhere more so than in the rather turgid unaccompanied choral writing of the meditative third movement.

Perhaps the musical content of *A Litany* would have emerged more strongly if it had not been programmed alongside Elgar's moving, final large-scale choral work, *The Music Makers*. Hilary Davan Wetton, the choir's musical director since 1968, conducted a well-prepared account, faithful to the letter of the score but missing the authentic Elgarian élan. Catherine Wyn Rogers proved an eloquent, touching soloist, best in her moments of reflection, but somewhat overwhelmed when pitted against full choir and orchestra, a problem of balance which, for all his music's other drawbacks George Lloyd would have been well able to solve.

Antony Bye

Theatre/**Alastair Macaulay**

The woman behind Crusoe

Daniel Defoe, among his many achievements, wrote two of the first classic novels about women. The heroines of *Moll Flanders* and *Roxana* are not just far more realistically shown than most other women shown in the novels and plays of the late-17th or 18th centuries, they are also remarkably modern. They do not live for love, they have considerable independence of mind, and they keep reinventing themselves in their pursuit of liberty and happiness.

But so what? Defoe still sinned in two important respects: he was white, and he was male. J.M. Coetzee's 1986 novel *Foe* reminds us that "Foe" was Defoe's original name, and it pretends that his original source for *Robinson Crusoe* (also a part-inspiration for the subsequent *Roxana*) was a woman called Susan Barton, who as a castaway shared "Cruso's" island and made it to London, after Cruso's death, with the voiceless Man Friday. In London, she meets another Susan Barton, who claims to be her daughter. (This refers to a key part of *Roxana*.) Susan is Foe's muse, she tells him; and the muse was never drearier or more bedraggled. Or more p.c.; *Foe* makes redress at one and the same time to the obliterated female voice and the deracinated and silenced black, while toying modishly with the relationships of art and life, of silence and speech, of fact and fiction. And it is *Foe* that Théâtre de Complicité has adapted in its latest production.

Complicité is the least British and most European of our theatre companies. Its use of physical and vocal intensity is, even after several years, exotic and, on occasion, refreshing. Sound and design are fluently incorporated into the action; and the performers, because they are involved in the creative process to a high degree, behave with the authority of authors, not interpreters. In the case of *Foe*, which is all about the nature of authorship, this might be highly interesting.

Might be, but in the event is not. Complicité is a broad enough church to include several different stylists (in 1994-95 two separate Complicité shows ran at the same time). *Foe*, unfortunately, includes the worst of them. It has been adapted for Complicité by Mark Wheatley, and co-directed by Annie Castledine and Marcello Magni. And, at the centre here, as Susan Barton, is Kathryn Hunter.

Hunter is so vivid and peculiar a stage personality, so assured and mannered and gutsy a performer, that you can easily see why, earlier in the 1990s, she won two best-actress awards for performances with Complicité. And yet, as *Foe* reveals only too plainly, her acting is as terrible as it is striking. Her style here has become florid – with a lexicon of more grand gestures in one show (sometimes in one speech) than the Comedie-Francaise would employ in ten, and with her chesty nightmare voice flamboyantly rising and dipping and vibrating in every line. She reveals no inner life, and everything she does is wholly concerned with external effect.

In this last respect, she reveals (a) the worst feature of Complicité style; (b) the basic flaw of *Foe*; (c) the most gruesome sin of much bad old European acting. Everything in this production is turned into mere effect: the amplified crashes of waves of the desert-island beach, the wordless African chanting of Patrice Naiambana as Friday, the ghastly laughter of Selma Alispahic as Susan's maybe daughter, the cuter-than-thou tricks of Marcello Magni as Foe's scoundrelly servant Jack, the thunderously amplified shutting of unseen London doors. The amount of flashily prolonged screaming in both both acts beggars belief.

I will say one thing for *Foe*: it has left me longing to read a Defoe biography, to read some of the Defoe I have never read, and to re-read the three classic Defoe novels. *Roxana*, I have believed for some years, is the most neglected and underrated novel of the 18th century.

Foe **is performed at the Courtyard Theatre, West Yorkshire Playhouse, Leeds, until March 30. In April, it visits Oxford, Blackpool, and Brighton. From April 24 to June 1, it will be at the Young Vic, London; it then tours to Denmark, Germany, and Switzerland in June.**

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw
Tel: 31-20-5730573
● Radio Filharmonisch Orkest: with conductor Ion Marin and violinist Anne Akiko Meyers perform works by Sibelius and Stravinsky; 11am; Mar 24

■ ANTWERP

EXHIBITION
MUHKA - Museum van Hedendaagse Kunst
Tel: 32-3-2385960
● De Verzameling: exhibition of collages by Marcel Broodthaas, sculptures by Jan Verkruysse, and drawings and installations by Mark Manders; to Mar 24

■ BERLIN

CONCERT
Konzerthaus Tel: 49-30-203090
● Trio Fontenay: perform Beethoven's Piano Trio in C minor, Op. 1 No. 3, Piano Trio in B flat, Op. 97, and 14 Variations in E flat, Op. 44; 7.30pm; Mar 21
OPERA
Deutsche Oper Berlin
Tel: 49-30-3438401
● André Chénier: by Giordano. Conducted by Rafael Frühbeck de Burgos and performed by the Deutsche Oper Berlin. 7.30pm; Mar 20
Metropol-Theater
Tel: 49-30-202460
● Der Bettelstudent: by Millöcker. Conducted by Günter Joseck and performed by the Metropol-Theater Berlin; 7.30pm; Mar 20

■ BREMEN

EXHIBITION
Kunsthalle Bremen
Tel: 49-421-329080
● Max Liebermann, der Deutsche Impressionist: the central theme in the works by the German artist (1847-1935) is his development from realism to impressionism; to Mar 24

■ BRUSSELS

OPERA
Théâtre Royal de la Monnaie
Tel: 32-2-2291200
● La Callisto: by Cavalli. Conducted by René Jacobs and performed by La Monnaie; 7.30pm; Mar 20

■ CAPE TOWN

EXHIBITION
South African National Gallery
Tel: 27-21-451628
● Danish Contemporary Art: works by six contemporary Danish artists whose style is predominantly abstract. They are the painters Doris Bloom, Claus Carstensen, Jesper Christiansen and Dorte Dahlin, and the sculptors Soren Jensen and Olivind Nygard; to Mar 24

■ CHICAGO

CONCERT
Chicago Orchestra Hall
Tel: 1-312-435-6666
● Symphony No. 6: by Mahler. Performed by the Chicago Symphony Orchestra with conductor Michael Gielen; 8pm; Mar 21, 22, 23, 26 (7.30pm)

■ HAMBURG

CONCERT
Musikhalle Hamburg
Tel: 49-40-346920
● Cleveland Orchestra: with conductor Christoph von Dohnányi perform R. Schumann's Symphony No. 1 and Stravinsky's The Firebird; 7.30pm; Mar 22

■ LAUSANNE

EXHIBITION
Fondation de l'Hermitage
Tel: 41-21-3205001
● Cartier, Splendour of Jewellery: items from the Cartier Collection retrace the evolution in the Cartier style; from Mar 22 to Jun 16

■ LISBON

DANCE
Grande Auditório da Fundação Gulbenkian Tel: 351-1-7935131
● The Ballet Gulbenkian: perform Benvindo Fonseca's Para que a terra nao esqueça to music by Gorecki, Rui Pinto's Ordem e Desordem to music by Zazou; Barbara Griggi's Toujours Cassandra to music by Marcello, and Clara Andermatt's Quatro Arias de Opera; 9.30pm; Mar 20

■ LONDON

EXHIBITION
National Portrait Gallery
Tel: 44-171-3060055
● The Lure of the Limelight - James Abbe, Photographer of Cinema and Stage: the first major retrospective of the work of Abbe (1883-1973), best known for his iconic portraits of stars, including Rudolph Valentino, Lillian Gish and Louise Brooks; to Mar 24
OPERA
Royal Opera House - Covent Garden Tel: 44-171-2129234
● The Rake's Progress: by Stravinsky. Conducted by Mark Wigglesworth and performed by The Royal Opera; 7.30pm; Mar 21

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza
Tel: 1-213-626-6222
● Sigmar Polke Photoworks: When Pictures Vanish: this retrospective of Polke's photography-based works examines the critical role that photography plays in his larger oeuvre and encompasses 120 pieces from the mid-Sixties to the present, including the key series "Paris, Afghanistan, Pakistan" and "Goya, the Old Women", and a new group of 63 works; to Mar 24

■ NEW YORK

OPERA
New York State Theater
Tel: 1-212-875-5570
● Der Rosenkavalier: by R. Strauss. Conducted by Alexander Sander and performed by the New York City Opera. Soloists include Emily Golden, Elizabeth Holleque, Nancy Allen Lundy, Julia Anne Wolf and Catherine Kelly; 8pm; Mar 20, 26 (6.30pm)

■ PARIS

CONCERT
Salle Gaveau Tel: 33-1 49 53 05 07
● Ludwig Quartet: with pianist Noël Lee and baritone Laurent Naouri perform works by Jolivet, Emmanuel, Hahn and Poulenc; 8.30pm; Mar 21
OPERA
Théâtre de l Opéra Comique
Tel: 33-1 42 44 45 46
● Il Barbiere di Siviglia: by Rossini. Conducted by Stefano Ranzani and performed by the Opéra Comique and the Ensemble Orchestral de Paris. Soloists include Josef Kundiak, Katarina Karneus, Jean-François Vinciguerra, Roberto de Candia, Réda El-Wakil, Nadine Chéry and Olivier Heyte; 7.30pm; Mar 20, 23, 25
THEATRE
Théâtre National de Chaillot
Tel: 33-1 47 27 81 15
● Savannah Bay: by Marguerite Duras. Directed by Jean-Claude Amyl. The cast includes Gisèle Casadesus and Martine Pascal; Tue - Sat 9pm, Sun 4pm; from Mar 20 to Mar 31 (Not Mon)

■ VANCOUVER

EXHIBITION
Vancouver Art Gallery
Tel: 1-604-682-4668
● Leon Golub and Nancy Spero: War and Memory: this exhibition examines the careers of the American artists Leon Golub and Nancy Spero. Together since meeting in Chicago in the 1950s, they have individually produced uncompromising visions of the human condition. The exhibition looks specifically at their representations of war which for Golub have appeared as large scale, aggressive paintings and for Spero as delicate drawn, collaged and printed works; from Mar 20 to Jun 3

■ VIENNA

OPERA
Wiener Volksoper
Tel: 43-1-514442960
● Carmen: by Bizet. Conducted by Cornel Trailescu and performed by the Wiener Volksoper. Soloists include Ruxandra Donose, Kurt Schreibmayer and Georg Tichy; 7pm; Mar 20

■ WASHINGTON

CONCERT
Terrace Theater
Tel: 1-202-467 4600
● Guarneri Quartet: with violinists Arnold Steinhardt and John Dalley, viola-player Michael Tree and cellist Davis Sayer perform Beethoven's String Quartet in A minor, Op. 132 and String Quartet in C major, Op. 59, No. 3; 7.30pm; Mar 20
OPERA
Opera House Tel: 1-202-416-4600
● Così fan tutte: by Mozart. Conducted by Richard Bradshaw and performed by The Washington Opera. Soloists include Pamela Coburn, Jan Grissom, Delores Ziegler, Richard Croft and Jerry Hadley; 8pm; Mar 20, 22, 24 (2pm)

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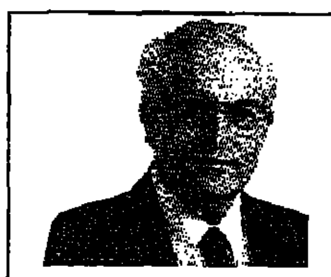


Martin Wolf

Problems of uncertainty

Naive Keynesianism is dead. But the legacy of Keynes remains relevant to policymakers struggling with the difficulties of managing market economies

John Maynard (Lord) Keynes died almost 50 years ago, on April 21 1946. For a little more than a quarter of a century after his death the influence of his ideas grew, until even Richard Nixon declared "we are all Keynesians now". The US president was right, though not for long. The great inflationary fire of the 1970s consumed naive Keynesianism – the use of discretionary fiscal policy to expand real demand and secure full employment. It cannot be revived. But Keynes's concern with how best to manage a market economy remains as vital today as 50 years ago.

Robert (Lord) Skidelsky, the distinguished biographer of Keynes, argues in a lucid short study of his life and influence (*Keynes*, Past Masters, Oxford), that naive Keynesianism was the guiding creed of economic policy for only a little over a decade, roughly as long as the monetarism that followed. Its worldwide dominance began with the accession of John Kennedy to the US presidency in 1961 and ended with the first oil shock in October 1973.

Why was it so short-lived? Lord Skidelsky asserts persuasively that it was because Keynesianism failed in its desire to make "the world safe for capitalism and capitalists". It was destroyed by its identification with "a disproportionate growth of the public sector accompanied by growing labour militancy". As a result, naive Keynesianism gave birth to the four horses of its own destruction – inflation, dirigisme, fiscal hypertrophy and short-termism.

The destruction of the value of money was the principal long-term bequest of the Keynesian era. It was 30 years after the death of Keynes before naive Keynesianism was abandoned, a period during which the British level of consumer prices rose by about 450 per cent (see chart). Such inflation was unprecedented in British economic history. The cost of eliminating the resulting inflationary psychology, still not fully achieved, has been horrifyingly high in terms of recessions and unemployment.

To sustain "full employment" when inflation was accelerating, governments turned to controls on prices, wages and profits. Such interference was partly justified by the belief that incentives and competition were of little importance; full employment and growth could be secured by expanding demand.

This lack of attention to incentives was particularly marked in the indifference of Keynesians to the malign effects of rising taxation and public spending. It was exacerbated by the shift in the focus of policy debate away from long-term performance to what would happen to activity over the next year or two. While the depression did indeed require urgent remedies, his statement that "in the long run we are all dead" gave a green light to the generation of short-termists.

These were grievous faults but Lord Skidelsky carefully distinguishes the more circumspect attitudes of Keynes from the excesses of his disciples: "First, although he was intellectually over-confident – a trait inherited by his followers – he was notably modest about what policy could achieve in a free society, something which his followers tended to ignore. Secondly, his social aims were, as he put it, 'moderately conservative'. There is nothing in Keynes's social philosophy . . . which would have supported the seemingly relentless expansion of the welfare activities of the state which continued so heavily to the fiscal crises of the 1970s."

Yet Keynes cannot escape all blame for the debacle. As Lord Skidelsky remarks, "the existing system was oligarchic and plutocratic, rather than democratic. The assumption that it would continue this way, with the addition of 'technical expertise', was the Achilles' heel of Keynes's political theory".

If much damage was done and Keynes himself bears a part of the blame, is his thought now no more than a historical curiosity? The answer is no.

Most obviously, modern macroeconomic theory started with his seminal work. An economist can now be Keynesian or anti-Keynesian, but not pre-Keynesian. Furthermore, the collapse of monetary targeting – Keynesianism's once triumphant successor – has led to renewed interest in his approach to policy.

Prior to Keynes, informed opinion held that governments should follow specific rules for monetary and fiscal policies – such as the gold standard and balanced budgets. Keynes, however, was tempted by the idea of a discretionary policy, adjusted in the light of changing circumstances. This predilection derived from the most intellectually exciting aspect of his vision – his emphasis on pervasive uncertainty about the future and the consequent difficulty of securing co-ordination of the plans of millions of producers and consumers in a modern economy.

Full employment of resources depends on how people react to their constantly fluctuating expectations of an inescapably uncertain future. At times of high uncertainty, for example, people will seek to hold their wealth in as liquid a form as possible. This is what money – a general reserve of purchasing power – allows them to do. As they flee to money, the desired return on riskier long-term commitments will rise and investments shrink, perhaps collapse, bringing ruin in its wake.

While Keynes himself did not have the tools fully to analyse the implications – in important respects, we still do not – he had brilliantly identified the principal problem, both for understanding and for policy.

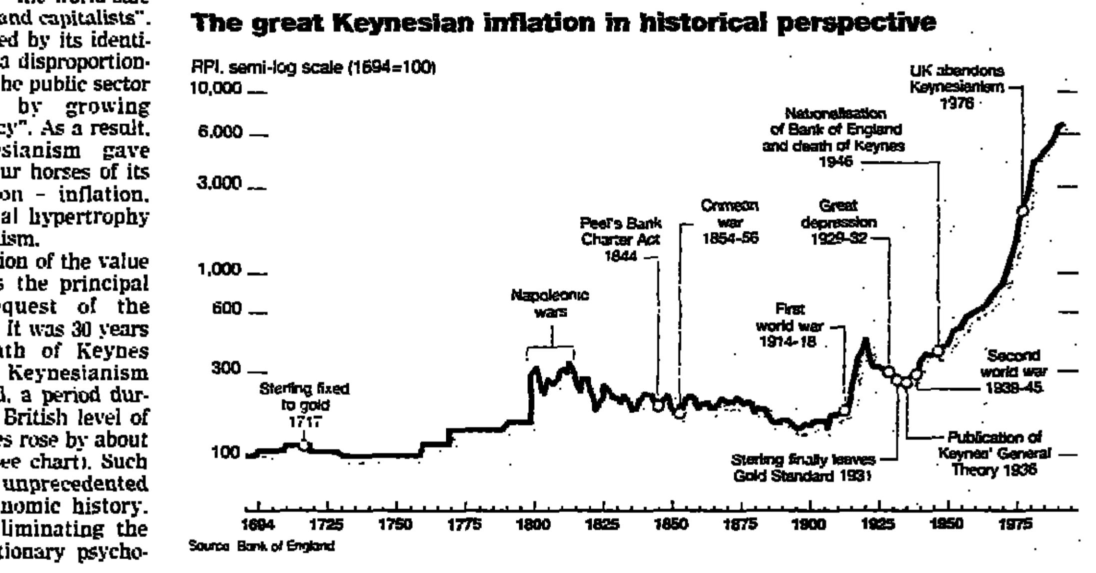
He concluded that the right response was to adopt discretionary monetary and fiscal policies. But the obvious way for governments to reduce the uncertainty inherent in a market economy must be for their own actions to be as predictable and transparent as possible. The Treasury opponents against whom he argued during the 1920s and 1930s understood this, which is why they believed it would be best for sterling to be put back onto the gold standard in 1926 – a decision he condemned.

The dilemma remains today, since a rule-governed monetary system has not been established. In particular, the attempt to rely on a rule for the rate of monetary growth has proved unworkable. Money, being created by the market, is simply not a precise and targetable quantum.

The best answer is to combine the necessary discretion with the required predictability, by delegating responsibility for achieving a target for inflation or nominal national income to an agency of government, the central bank. Keynes himself, who understood the dangers of inflation, might have endorsed this solution in modern conditions, when governments are subject to such strong day-to-day political pressures. It is, in any case, Keynesian in the broadest sense – in being a practical response to the problem of pervasive uncertainty he had himself identified.

It is Keynesian in another sense, too. If policymakers manage to steer the economy between the rocks of high inflation and the whirlpool of depression, both equally destructive to social stability, they will also live up to his heroic assertion that economists are "trustees, not of civilisation, but of the possibilities of civilisation".

The great Keynesian inflation in historical perspective



Source: Bank of England

Marketing · Diane Summers

When brands face the threat of cannibalism

Companies should be wary of making own-label goods at the expense of their well-known names

The Spanish appear to be losing their enthusiasm for buying branded goods. In 1991 81 per cent of Spaniards agreed with the statement: "It's best to buy famous brands because you can rely on their quality." By last year this figure stood at 68 per cent, having sunk in 1993 as low as 50 per cent.

As for Dutch consumers, their traditional scepticism about brands seems to be increasing: the percentage agreeing it is best to buy famous brands has fallen from 41 per cent in 1991 to just 34 per cent last year.

The startling decline in respect among consumers in the principal European economies for the big brand names over the last five years is highlighted in figures just published by the London-based Henley forecasting centre. In conjunction with market research company Research International, Henley gathers data each year on consumer behaviour and trends in Germany, the UK, France, Spain, Italy and the Netherlands.

The corollary of this declining respect for brands is the increasing regard in which retailers' own-brand or private-label goods are held in both Europe and, to a growing extent, North America. In Europe, own-brand sales have grown over five years by an average of 7.5 per cent a year at present prices, compared with 3.4 per cent for overall retail sales growth, according to Euromonitor, the international market research group. Meanwhile, in North America, Euromonitor finds that in the packaged food sector, for example, own-brand's share rose from less than 20 per cent of the market in 1990 to nearly 25 per cent four years later.

Mr James Murphy, Henley associate director, sees a continued lack of consumer confidence, pressure on prices and the "shifting respect for emblems of authority" as contributory factors. Consumers begin to question why they are paying more for the benefit of a brand logo when own-brand versions may be just as good.

For those big brand manufacturers considering own-brand production, there is unequivocal advice from Mr John Quelch, professor of marketing at Harvard Business School, and Mr David Harding, a director of strategy at consultants Bain & Company. In the Harvard Business Review they state: "Our recommendation to companies that do not yet make products for the own-brand market is simple. Don't start."

Own-brand production that starts as a method of using occasional excess production capacity can end up cannibalising the main body of a company's branded goods.

They argue that any company making own-brand should answer three questions to get at the real economics of production: what is the true contribution from own-brand products; what fixed costs are attributable to own-brand production; and how much will the own-brand goods cannibalise the company's brands?

They demonstrate the point with the example of Consumer Corporation (not its real name). It found the contribution to fixed costs and profits from a popular food product was $0.40 per pound for the national brand and $0.23 per pound for the private label. So the company had to sell almost two pounds of the private-label product to equal the contribution generated by the sale of one pound of the national brand. Once cannibalisation had been taken into account, it decided that the risk outweighed the marginal reward and opted instead to invest more in the branded product.

Additional manufacturing and distribution costs, such as changing labels and packaging for each own-brand customer and holding stock for each account, should also be added into the calculation, as should the costs of maintaining separate sales relationships with retailers and "unproductive use of management time in reducing conflicts" between the two sides of the operation, they argue.

For those companies which have already chosen the own-brand route, Quelch and Harding recommend, as a first step in keeping operations under control, that an audit is carried out. "Amazingly, top-level executives at many companies do not know how much own-brand business their organisations do," they say. Second, true profitability, on both a full-cost and marginal-cost basis, and the impact of private label in the individual sectors in which the company's brands operate, should be calculated.

Finally, excess capacity should be closed, they say. "The option of shutting down unused capacity is almost never considered in the own-brand debate. Yet in five categories, Consumer found that the profitability of manufacturing rationalisation (including exit costs) was superior to filling excess capacity with low-return private-label business," they state.

In spite of declining respect shown by consumers, Henley sees the brand as far from dead. The trick now seems to be for manufacturers to imitate the imitators: the brand producers must establish relationships with consumers as strong as those built by retailers such as J. Sainsbury in the UK and Albert Heijn in the Netherlands.

"No sector is immune from the threat of own-label," says Henley. Revitalising brands requires measures such as added services (for example, product advice), product-focused marketing campaigns, continuous innovation and dialogue with consumers.

Frontiers Unit. Henley Centre 44 171 353 9961.

Private Label in Europe: Private Label in North America. Euromonitor 44 171 251 1105.

Brands versus private labels: fighting to win. John A. Quelch and David Harding. Harvard Business Review, Jan-Feb 1996.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e.mail: letters.editor@ft.com Translation may be available for letters written in the main international languages.

Political risk insurance system already exists

From Ms Shaila Fernandes.

Sir, It is rather ironic that the fourth West-East conference of ministers meeting in Maryland, suggesting "industrial countries should develop a comprehensive multilateral system to provide political risk insurance for investment in the eastern bloc countries" ("Foreign investors give former Soviet bloc nations a miss", March 7) was held just a few miles away from the Washington, DC-based Multilateral Investment Guarantee Agency of the World Bank, which provides precisely this service to foreign investors.

The agency was created in 1988, as an affiliate of the World Bank Group, to facilitate foreign direct investment to investors seeking to expand their business in the developing and transition economies of the world.

It does this by providing political risk insurance to foreign investors against the risks of currency transfer, expropriation, and war and civil disturbance, and through its investment marketing services helps host governments attract investment.

Investments insured by the agency in Europe and central Asia form 21 per cent ($415.6m in coverage) of the agency's current portfolio.

Its 40 guarantee contracts issued (as of March 1) in the region have facilitated an estimated $1bn in foreign investment by investors from Belgium, France, Germany, Italy, the Netherlands, Switzerland, Turkey, the UK and the US. The investments were for projects in the Czech Republic, Bulgaria, Hungary, Kazakstan, the Kyrgyz Republic, Russia, Poland, Slovak Republic, Turkey and Uzbekistan.

Shaila Fernandes,
business development,
guarantees department,
Multilateral Investment Guarantee Agency,
1800 G Street,NW
Washington DC 20433,
US

Copyright goes back a lot further

From Mr Iain C. Baillie.

Sir, I refer to the article "Digital ink grants every whim" on your Media Futures page (March 11). Mr Joseph Jacobson, the creator of the electronic book referred to, proposes to deal with the copyright problem by downloading 500 pre-second world war titles.

I would point out that this would not avoid the problem of copyright. Copyright only expires 70 years after the death of the author. Thus, a pre-1949 work by Bernard Shaw will not, in fact, expire until 2030 since Mr Shaw died only in 1950. Perhaps Mr Jacobson should use an earlier starting point.

Iain C. Baillie,
20 Chester Street,
London SW1X 7BL,
UK

Scepticism that reveals real pro-European

From Mr Michael H.J. Plaut.

Sir, Why are people who criticise the European Union referred to as "anti-European"? Surely if one believes that the policies currently coming out of Brussels are not only hindering the economic prosperity of Europe, but are also endangering long-term democracy and individual freedom within Europe, what can be more pro-European than to raise one's voice in protest in the hope of arresting Europe's decline?

It is always assumed that if one speaks out against the EU then one is anti-European. I believe that there are a lot of people like me who wish to see closer trade and cultural links within Europe as per the original European Economic Community; but are extremely concerned by the dangerous direction of the EU.

We are not anti-European or even jingoistic – but we just do not believe that the European Union serves the best interests of individual citizens or member states.

Michael Plaut,
director,
NCF Asset Finance,
Northmace House,
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UK

From Mr Derek H. Broome.

Sir, The EC Commission continues to provide ammunition to the Eurosceptics to the despair of us Europhiles by making the occasional bizarre statement. The latest ("Let there be phones for all, says Brussels", March 15) on telephone, fax and computer connections for all betrays a complete divorce from the real world, and a surrender to hype about the information society.

The marginal cost of providing a new UK connection is in excess of £1,500; much more for remote locations. Fax and computer terminals can more than double this capital charge, with a cost of ownership at £500-£600 per annum before call charges.

Has anybody done a cost analysis related to the benefits to the people themselves? One can think of many more productive investments for the under-privileged. Such people are more concerned with the basics of existence than the networks talked about rather than used by the chattering classes.

The sums involved are even more obscene when related to third world populations. The capital investment alone would sustain a family for two years or set peasants up with the means of feeding themselves on a permanent basis.

Let them eat cake?

Derek H. Broome,
52 Wellingborough Road,
Mears Ashby,
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UK

Tragedies confirm society cannot equivocate on gun control

From Mr Philip Grayson.

Sir, Words of sorrow are ten-a-penny. Do we *care* enough to prevent a repetition of Dunblane? Hungerford, the McDonalds Massacre, Dunblane and so many other tragedies confirm that we cannot afford to equivocate on this issue. There is no place in British society for firearms except in the hands of the armed forces, the police and farmers (who may justify shotguns for pest control – but licensing can be strengthened to include mandatory certificates of health every year: yes, let gun holders really prove their fitness).

Politicians from any party can achieve immediate acclaim from a vast swell of moderate opinion by endorsing this view and acting upon it. Indeed, the government could find itself popular if it acts decisively.

This will not solve all gun-related crime. Criminals and terrorists will still find ways of procuring weapons – but the supply will be vastly reduced, and such a move would virtually eradicate the massacres we see periodically by licensed firearm holders who at one time appeared sane, but for one reason or another act insanely. Similarly, the prohibition of the sale of all ammunition except shotgun cartridges for pest control (sold under licence by the police) will vastly reduce the potential for bloodbaths of this sort.

Members of Parliament, show your courage. For every single gun-lobby voter, there are thousands of us moderates waiting to sign up with you.

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FINANCIAL TIMES
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Tuesday March 19 1996

China and the world

Beijing's latest military exercises off Taiwan have exposed a disconcerting level of disarray in the outside world. In their aftermath, developing a more coherent policy towards China must be a priority for the rest of Asia, and for the west. The US has to take the lead because it alone, in spite of recent uncertainty, still commands real respect in Beijing.

The right approach is to be firm on security matters but constructive overall. Within a generation China is likely to become a leading power, both economically and politically. The world will have to deal with it on those terms, but, handled correctly, China's emergence need not constitute a threat.

The rest of Asia worries about China's tradition of exacting tribute from weaker neighbours. Doubtless some of China's more conservative and nationalistic cadres still think in those terms. But many of its younger technocrats are more concerned with economic liberalisation and the creation of a prosperous society.

The west must encourage this latter group. China's emergence on the world stage will be smoother politically if it grasps the concept of global economic interdependence. The deliberations of Apec and its Asia-Europe counterpart are important in this context, however feeble their initial results. As long as China is outside the World Trade Organisation, these are the only groups to engage it in discussing the rules of international commerce.

The US move last weekend to resume its bilateral economic dialogue with China is similarly welcome. Congress should think very carefully before withholding most-favoured-nation status from China. That would drive it into deep economic isolation, as well as deal a cruel blow to Hong Kong's economy in the run up to mainland rule next year.

Crystal clear

But, while seeking to integrate China economically, the outside world must be crystal clear on its refusal to tolerate security threats. The US policy of deliberate ambiguity on the extent of its readiness to support Taiwan masks a great deal of incoherence and has sent conflicting signals to China.

First Washington was bounced into allowing Taiwan's President Lee Teng-hui to visit the US last summer. Then it made almost craven attempts to assuage Beijing's furious reaction. Now, by sending two aircraft carriers to the region, the US is signalling firmness. This last is the right message: henceforth it must be consistent.

Moral support

That does not mean Taiwan can or should be recognised as a separate state. Countries which recognise Beijing, including the US, have to respect its claim to sovereignty over Taiwan however much they applaud the latter's move to democracy. Yet the way China is pursuing its claim through threats and demonstrations of force is unacceptable. It is damaging regional security, risks exacerbating the Asian arms race, and is interfering with important shipping and aviation routes on which other nations depend.

If the US security role in Asia is to be credible, Washington must now show that it is capable of acting as policeman. Other Asian nations must at least lend it explicit moral support in doing so, so that China sees there are limits to its anti-social behaviour. The argument is heard too often that China grants favours only to those who eschew confrontation with it. In practice, it is adept at detecting and exploiting others' weakness.

China must be made to understand that it has much to lose by a policy of adventurism. Any actual invasion of Taiwan would not only almost certainly fail but would swing world opinion, in the US and elsewhere, heavily in favour of recognising Taipei. The flow of foreign capital on which China depends to develop its economy would dry up. China would thus jeopardise both its political and its economic objectives.

In contrast, China has much to gain from learning to live by generally accepted rules of international behaviour. It is not, as China often argues, a question of accepting humiliating outside constraints imposed by others. All states are more secure when such rules are respected. By accepting its obligations under them, China would enhance its own security as well as that of others.

False promise of the V-chip

The "V-chip" has crossed the Atlantic even faster than US films and television series now do. Last month, despite opposition from broadcasters, the US passed a law to force all new televisions to be fitted with technology allowing parents to block violent or sexually explicit programmes. Now the UK government is seriously considering a similar step. The move has superficial attractions, but is misguided.

Under the proposals, broadcasters would attach an electronic signal to programmes containing material deemed unsuitable for children. Those programmes would then be scrambled by the chip ("V" stands for "violence") unless the chip were switched off by an adult using a secure code.

It is not only politicians keen to champion family values who have embraced the V-chip. Concern about violence, bad language and sex on television is widespread; surveys repeatedly show that parents are particularly worried. One aim, as Mrs Virginia Bottomley, UK national heritage secretary, put it yesterday, is to help "parents exercise their responsibility". Those who believe that what is seen on the screen has an influence on behaviour also hope that the move might help curb violence in society.

However, the proposals are likely to be unworkable. First, it would be almost impossible to devise a rating system of the type required. The sheer variety of television programming is a formidable obstacle. Should serious dramas be judged on the same criteria as cartoons and thrillers? What about news – such as last week's tragedy in Dunblane?

Impossible to apply

Second, even if a ratings system were constructed, it might prove impossible to apply in practice. Advocates point out that such a system exists for film. But the amount of television programming, and the speed with which it is commissioned, are far greater than in film – particularly as the number of channels is increasing so fast.

Third, children are often more adept with computers and video technology than their parents. In most homes it would also be years before the old sets without V-chips were thrown out.

Not only is the scheme likely to be unworkable, it could also damage the quality of broadcasting. Broadcasters argue that a ratings system would sanitise television to an undesirable degree. Because of the speed of programme-making, they would be inclined to censor themselves in advance more than film-makers.

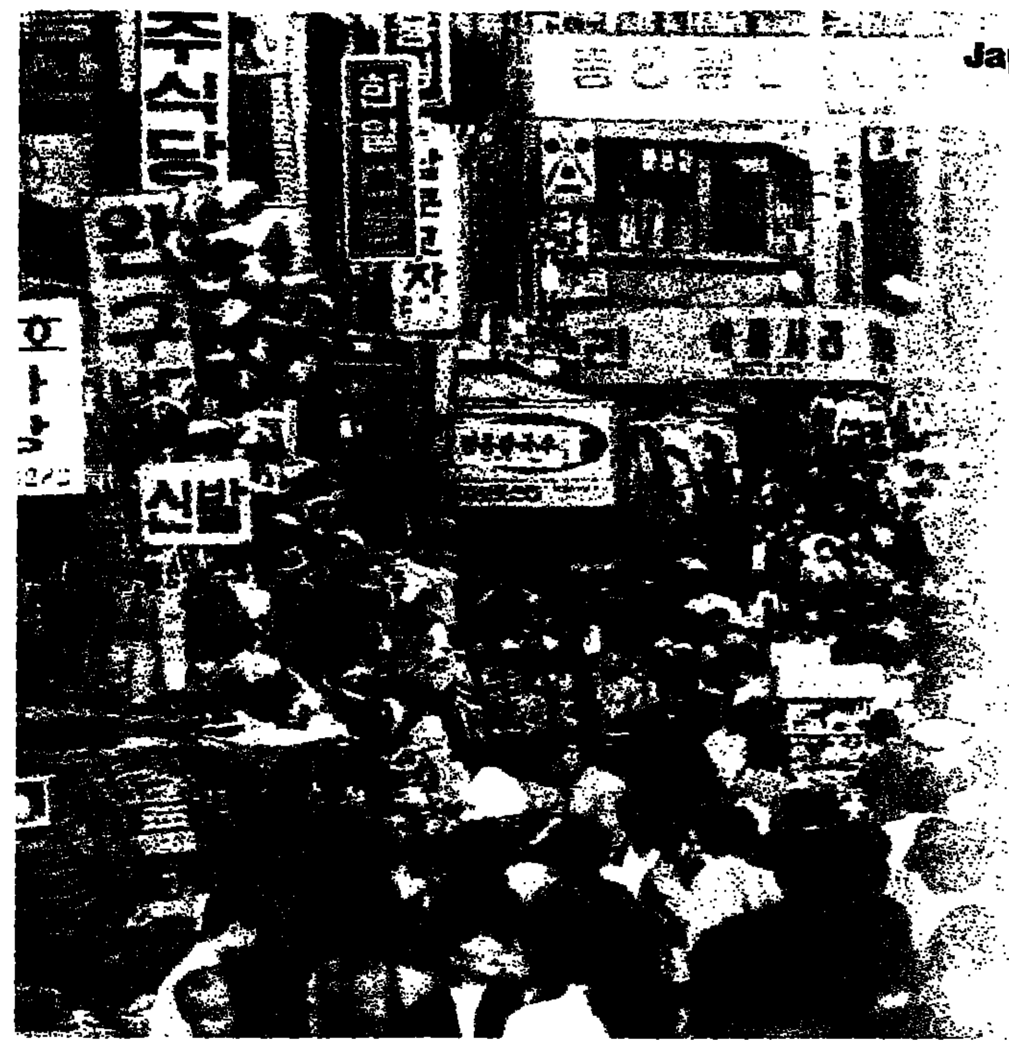
Extra expense

The use of chips, even if installed only in some new sets, would also impose extra expense on consumers who have no desire for the service. The technology itself is thought to cost manufacturers only about 60p per set to fit. However, the much larger, continuing cost of operating the ratings would fall on broadcasters. Where they were unable to pass on costs to viewers they would be forced to cut into programming budgets.

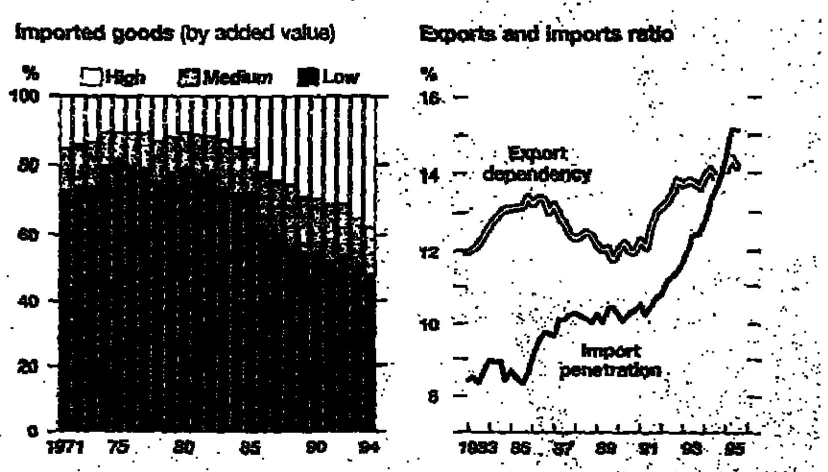
Most unattractive of all is that the proposals portray the invention of a new piece of electronics as the answer to deep-seated social problems. But the V-chip cannot repair defects of parenting. If parents do not now exercise control over what their children watch with the on-off button, it is hard to see why the addition of a more complicated piece of new technology would entice them to do so.

Nor is it obvious that filtering out violent programmes would have much impact on levels of violence in society. The question of whether there is a link between viewing of violence and subsequent behaviour is longstanding, but the proposition that there is such a link is far from proven.

Next week Mrs Bottomley's officials meet television manufacturers, broadcasters, regulatory bodies and viewers' groups to discuss the practical issues involved. They will also raise the question of European collaboration. They should not, however, ignore these wider questions. Many people dislike the reflection of society portrayed by television. But sanitising that image – the possible effect of these proposals – does not solve the underlying social problems.



Japan: consumers welcome imported goods



Trade performance

(¥bn)	1991	1992	1993	1994	1995 Provisional
Exports	41,465.1	42,081.6	39,164.0	39,348.5	40,251.8
Imports	28,542.8	26,305.5	23,682.3	24,616.8	27,914.9
Trade balance	12,923.1	15,776.4	15,481.6	14,732.2	12,336.9
Services balance	-5,831.1	-5,570.9	-4,780.3	-4,887.6	-5,394.1
Current account	9,175.7	14,234.9	14,669.0	13,342.5	10,371.0

Sources: Jardine Fleming, Ministry of Finance

Barriers fall to import invaders

Although obstacles still exist, structural changes to the economy mean Japan is opening up to foreign goods, says William Dawkins

There is no longer any magic to selling foreign goods in Japan, according to Mr Mitsuru Sato, president of Volkswagen Audi Nippon, importer of the biggest selling make of foreign cars in Japan.

"This is just like any other market, in many ways," he says. He points out of his office window in the industrial port of Toyohashi to a dockside crowded with 5,000 newly shipped Volkswagens and Audis – the latest monthly consignment in what promises to be a record year for VAN.

The company increased its sales in a sluggish Japanese market by 32 per cent last year. Like many other importers of consumer and industrial products, it is doing better in Japan than it would have dared hope a few years ago.

"Things are opening up," says Mr Bruce Albertson, Asia president of General Electric Appliances, which last year tripled its sales of giant US refrigerators in Japan. Such items were formerly seen as unsellable to Japanese, who preferred appliances small enough to fit comfortably into their kitchens.

Such optimism from exporters to Japan would once have seemed eccentric. They became accustomed to finding enormous technical, cultural and financial barriers to entry into the Japanese market.

Considerable obstacles, such as high property prices and a very costly distribution system, still exist. Yet Japan's new openness to foreign goods was a significant factor in the first decline in its annual trade surplus in five years, by 7.6 per cent to $134.5bn, in 1995. The trade account even dipped into deficit in January – again for the first time in five years – to the astonishment of economists in Tokyo.

The striking feature of last year's decline in the surplus was a 22.8 per cent rise in imports, which advanced twice as fast as exports. In yen terms – ironing out the recent wild currency fluctuations affecting the dollar figures – the surplus has now been on the decline for three years in a row, establishing an unmistakable trend.

The falling surplus marks a profound change in the character of Japan's previously export-obsessed economy. Japan's growing taste for foreign goods, most economists say, began as a cyclical change initiated by the cheap imports brought by a rising yen, but has now taken on a momentum of its own.

The currency pressure came to a head last April when the Japanese yen touched a record Y79 to the US dollar, rendering imports unbeatably cheap by comparison with domestically made products. The rate has since eased, with the dollar now at about Y105. But, unlike in previous periods of yen weakness, there are no signs that imports have lost market share as a result, although analysts believe the decline in the surplus is already slowing because of the stronger dollar.

The composition of imports has changed too. Foreign goods' market shares have advanced fastest in the very sectors previously dominated by domestic producers. Japan, once the world's largest producer of televisions, became a net importer two years ago – and last year bought nearly two-thirds of its sets from abroad.

Nearly 90 per cent of its electronic calculators now come from overseas, three times the level of five years ago. The market share of the top three imported computer brands has nearly tripled to one-third over the same period.

Even the car market has become measurably more open, despite – or, the US government would argue, because of – US complaints of unfair barriers. The foreign market share, excluding Japanese cars made abroad, has risen by half to 7.3 per cent in the past five years. Include foreign-made Japanese cars, and the proportion doubled over the same period to 10.2 per cent in 1995.

There are good reasons to believe that foreign-made goods will hold on to their increased share. The catch is that foreign companies will not get the full benefit. For, according to the Japan External Trade Organisation (Jetro), up to one third of imported manufactured goods come from Japanese plants abroad. The irony will not please Japan's trade partners, but "the most successful exporter to Japan could well be Japan", says Mr Richard Werner, chief economist at Jardine Fleming Securities in Tokyo.

And that success is unlikely to diminish. About a fifth of Japanese companies' industrial production has now been moved abroad, according to Jetro – up from a tenth three years ago – in search of lower costs and proximity to emerging markets. An exodus on that scale has long moved past the point of no return.

Another factor to suggest that the import invasion is here to stay is the revolution in Japan's retail industry. Aggressive new retailers have sidestepped the old multi-layered distribution system and pushed aside old brand allegiances, flooding high streets with foreign goods from Belgian beer to US designer clothes.

The new retailers have been enthusiastically welcomed. Superstores' sales rose 30 per cent in the three years to 1994, while sales at independent corner stores, whose fealty to domestic suppliers had long made foreign goods scarce, fell 10 per cent over the same period, according to industry figures. Superstores are typically owned by large companies, less prone to the bullying of domestic suppliers than small corner shops.

A sub-plot of the retail revolution has been the growth in sales by foreign mail-order companies, up between 5 per cent and 7 per cent annually throughout the recession, led by clothing and jewellery.

Fickle consumers of course played an important part in pumping up and letting down previous import surges. But this time, they are behaving in steadier fashion. A comparison with the most recent burst of importing on this scale – a 25 per cent rise in dollar terms in 1988 – shows why this one is no fad. That phenomenon occurred during fast growth in consumer spending; this latest import surge has taken place, against all economic orthodoxy, during a collapse in spending and record unemployment.

In another telling contrast to the roaring late 1980s, the Japanese are now importing necessities and affordables, not just the luxury goods, gold, oil and raw materials which made up an estimated one third of imports in 1988.

The share of imports made up by manufactured goods has tripled to a record 60 per cent over the past decade. It is an important change, part of the long-term maturing of the Japanese economy; it brings Japan closer to leading free-market countries such as the US, Germany and Britain, where the ratio of manufactured imports is stable at about 80 per cent.

Japan's new propensity to import invites the question of how much further the trade surplus, the focal point of its trade disputes with the US and foundation of its strong currency, will shrink. The views of economists in Tokyo range from those who think the surplus could nearly halve from the present level within a year and then resume a gentler fall to those who predict that it will merely dip this year and then start to rise again.

Salomon Brothers, the US investment bank, believes the fall in the yen will start to curb import growth this year and at the same time restore some lost export competitiveness.

The auguries are that the yen will remain weak for some time. The Bank of Japan remains firmly committed to a loose monetary policy until a domestic recovery gets well under way, despite the recent pronouncements of Mr Wataru Kubo, the finance minister, that Japan's army of savers and pensioners require a higher return on deposits. Meanwhile, exports could accelerate as Japanese manufacturers continue their onslaught on emerging Asian markets – the largest part of the trade surplus, growing by 15 per cent a year – to compensate for slower growth in the US and Europe.

It is not just the direction of exports that dictates higher growth. The structure too has altered towards higher-technology goods where demand is growing faster. One example is that for the past eight months the value of Japan's exports of semiconductors have for the first time exceeded its overseas sales of cars.

But many analysts, among them Jardine Fleming, argue that the structural changes in the domestic economy are so deep that the annual trade account could balance early in the next century, completing the transition from an exporting to a consuming economy.

Whichever way the surplus turns, economists and policymakers in Tokyo agree on one thing: the opening of the Japanese economy, while painfully slow and partly reserved for the enrichment of Japanese companies, has developed an unstoppable momentum.

"Japanese consumers have only just started to exercise the choices permitted by their relative wealth," says VAN's Mr Sato. "I can't see them going back."

· OBSERVER ·

Power of the beady eye

■ Relations between the BDI, the German federation of industry, and the BDA, the German employers' federation, had been dodgy for some while.

But permafrost seems to have set in between the two neighbouring organisations in Cologne now that Hans-Olaf Henkel, the BDI's combative president, is attempting to block the next career move of Klaus Murmann, outgoing BDA president.

Breaking with Germany's cosy, consensus traditions, Henkel has said he will not support Murmann's candidature for the presidency of Unice, the Brussels-based European business and employers' federation. Instead he has thrown his weight behind François Périgot, the current Unice boss, who is seeking a further term.

If other business leaders follow Henkel's example, Murmann could be joining Germany's growing ranks of unemployed in December. He has already decided to give up the BDA job – and Dieter Hundt, a metal industry executive, is due to be confirmed as Murmann's successor today.

The BDI, which is not involved in the country's wage bargaining procedures, has watched with increasing fury over the past two years as employers' groups belonging to the BDA have conceded high wage settlements in negotiations with Germany's trade unions. That Henkel should deliver such an exquisitely timed blow to his compatriot is a measure of just how sour things have turned between the two men.

On a roll

■ On Wall Street, one Swiss bank's loss is another Swiss bank's gain. The latest turmoil to hit CS First Boston – the unit of CS Holding which seems forever in the midst of a bloody battle over bonuses – has just worked to the advantage of UBS.

After a healthy year in the bond markets, First Boston's fixed income traders had been looking forward to some equally flattering bonuses. Many got a rude surprise when they discovered they had failed to match the previous year's pickings.

The hysterical reaction – fuelled by word that president Allen Wheat is supposed to have made $9m – has been of true Wall Street proportions. Robert Diamond, head of global bond business, resigned, and so did a batch of other leading fixed income executives.

Now John Costas, one of the two people named less than a fortnight ago to succeed Diamond, has quit to become head of North American fixed income for UBS, a bank which is rumoured to be offering big bonuses of its own to lure top Wall Street talent.

UBS toyed for a long time with buying a US investment bank, before opting instead to grow one of its own. Only question is, will it do a better management job than its compatriot?

Tricky one

■ Argentine film buffs hoping to catch the first showing of Oliver Stone's Nixon last weekend were in for a disappointment. Officials at the cinema in downtown Buenos Aires informed an incredulous audience that the only copy of the movie had been borrowed – by President Carlos Menem.

It transpires that Menem had organised a private showing of the film in his luxurious Olivos residence where he likes to hang out with the "pizza and champagne" jet set. With economic crisis and a bitter cabinet dispute filling the president's agenda, it is a bit surprising there is any time for films. Then again, Menem, who would love to seek a third term were it not expressly forbidden by the pesky constitution, could perhaps be looking for tips from the old wheeler-dealer on side-stepping such niceties.

Squeaking pip

■ One of the allegedly inadvertent architects of the financial downfall of California's fat-cat Orange County is back on the public payroll.

Gaddi Vasquez, chairman of the county board of supervisors which signally failed to supervise the doings of treasurer Robert Citron, retired last summer. A bright-eyed politico, he was once seen as an up-and-comer with a fine future. He was never directly implicated in the book-cooking, fiscal voodoo and astrologically-inspired investment practices of Citron's office. But this good fortune – possibly due to his "outsider" status as a Latino representative in a singularly conservative area – was not enough to protect him from the backwash of the $1.7bn bankruptcy scandal.

Vasquez' first stop on the way out was at the public relations department of Southern California Edison, the regional power utility. Now he's hung up his suit and tie, for the relative anonymity afforded by the uniform of the police force – in the city of Orange.

Lost title

■ British titles mean a lot to Americans. Hence it is a great pity that Duke Power, the US electricity company, no longer seems to be interested in bidding for British Energy, the soon to be privatised nuclear power utility based in Edinburgh. It means that the Yanks have turned down the opportunity to rename their UK subsidiary Duke of Edinburgh....

The Financial Times

100 years ago

Progressive gold mining

For progressive geography and gold mining go to Perth in Western Australia. The correspondent of Reuter's agency out there solemnly informs us that a rich discovery of gold is reported to have been made in the Darling Range, "40 miles west" of that city. There should be no difficulty in "floating" a company to work 40 miles west of Perth, which is an eligible site in the Indian Ocean. The water-difficulty at all events ought to be absent.

50 years ago

Mexican railways

Bondholders of the defaulting National Railways of Mexico backed an indifferent horse. They will probably consider themselves fortunate to have the opportunity of saving something from the wreckage of their claims. Three-and-a-half years after concluding a settlement covering the direct obligations of the Mexican Government, the persevering International Committee of Bankers on Mexico has now succeeded in negotiating with the Mexican Government a plan for the resumption of interest payments and amortisation on a much reduced basis.

FINANCIAL TIMES
Tuesday March 19 1996

Police put on standby as money dispensers run dry

Striking security drivers affect Belgian cashflow

By Emma Tucker and Neil Buckley in Brussels

A nationwide strike by Belgian security van drivers is providing a taste of the cashless society.

Some automatic cash machines have already run dry, starved of funds by security staff who say their lives are being threatened by inadequate protection on night-time operations.

Meanwhile, police are on standby throughout the country to keep the country's banking system operating.

There are fears that the strike, which enters its 10th day today, could lead to a liquidity crisis in the next few days, although supermarkets have been offering extra cash to customers with debit and credit cards.

Concern that the biggest stores could become a target for robberies prompted the government to mobilise the police and the post office to empty their coffers at the weekend. From 7am until 11.20am on Sunday, post office vans, flanked by fleets of armed policemen, descended on more than 70 shopping centres to remove money spent on Saturday.

"We are still managing the situation, there is no crisis yet," said Mr Rik Pareit of the Belgian Bankers Association. "But the strike is now into its second week and of course we are noticing the effects."

Banque Bruxelles Lambert, Belgium's fourth largest bank, said the problem was not too little cash, but too much cash.

Notes were piling up in its larger branches while smaller and rural branches were running out, in some cases leaving local branch managers to use their own cars to transport money.

"You can't go running to the police every single time," the bank said. "With smaller amounts, you have to do it yourself, with all possible security. Sometimes you have to be a bit inventive."

The security drivers' unions were enraged by the use of police to transport money this weekend, saying the "publicity-seeking" operation involved precisely the sort of protection they were demanding.

The strike was called after a cash deliverer was shot dead during a night collection in Charleroi. The unions say a new law – rushed on to the statute book – that requires the presence of three people on all night deliveries is inadequate and are calling for an end to all night deliveries.

The government has now appointed two mediators to try to resolve the conflict, but there is no immediate sign of relief.

Luckily for Belgians, the use of electronic swipe cards for cash payments is more advanced than in many other European countries. According to Banksys, the company that runs the two main electronic card systems, electronic payments have risen between 10 and 15 per cent over the last few days.

Romania bans five banks from dealing in forex

By Virginia Marsh in Budapest

Romania's central bank yesterday banned five banks, including ING, the Dutch financial services group, from dealing on their own account in the country's fledgling foreign exchange market.

The five banks will be allowed to continue to act as brokers, within strict limits, to provide or sell foreign exchange for customers after their dealing licences were withdrawn yesterday.

No reasons were given for the move – the central bank would only say that the five had not complied with foreign exchange rules published earlier this month. But it comes amid central bank efforts to prop up the leu, the local currency, which private sector banks have been selling at less than the official rate.

The central bank said it would continue to re-evaluate other dealers this week, causing concern in the local financial community that other private sector banks would also lose their licences.

ING, one of the few big western banks to set up an office in Bucharest, described the move as a "complete surprise" and denied any wrongdoing. "We have made a thorough check and are not aware of violating any central bank regulations."

The bank added that it had learnt of the decision through the media and had yet to be informed of which regulations it had allegedly breached.

The move follows months of confusion on the local forex market – a nominally free interbank market launched in mid-1994 at the insistence of the International Monetary Fund. Private sector banks have consistently quoted weaker rates for the leu than the central bank's reference rate which is supposed to reflect the market average.

At present the reference rate is hovering at around 2,850 lei to the dollar against the 3,050 lei or more offered by private banks.

The forex market is dominated by the country's "big four" state commercial banks, which analysts say are under political pressure to protect the currency. They claim that, until recently, state banks have also been dealing in the leu at prices lower than those posted on their trading screens, and that this appeared to have been one reason for the central bank's crackdown.

Dealers agreed there was a need for greater transparency in the market, but claimed the authorities were trying to intimidate private banks and to fix the exchange rate through administrative measures.

"Withdrawing ING's licence is a very serious matter," said a western banker in Bucharest. "We aren't nervous yet but we will examine carefully the reasoning behind this action."

Land auction points to rising property prices in Hong Kong

By John Ridding in Hong Kong

Hong Kong's property market, one of the main indicators of economic confidence in the territory, is recovering from the sharp fall of 1994-95, the results of yesterday's government land auction show.

The prices for the four sites on offer were at the upper end of forecasts, supporting claims that the downturn is over, but drawing mixed verdicts on the strength of the upswing.

"The market is starting to move up, but not at full throttle," Mr David Mackey, property analyst at Salomon Brothers in Hong Kong, said. Mr David Faulkner, partner at Brooke Hillier Parker, the international property consultants, was more optimistic: "The big buyers are back in the market; there is a positive view of prospects."

Most attention was focused on the biggest site, a 15,100 sq metre plot of reclaimed land in Hung Hom Bay, an area in Kowloon adjacent to Hong Kong island. The plot, which will be used mainly for residential development, fetched HK$4.73bn ($612m), against predictions of between HK$4bn and HK$5bn.

Market observers said it was also significant that the site was bought by a group backed by Henderson Land, one of Hong Kong's biggest developers.

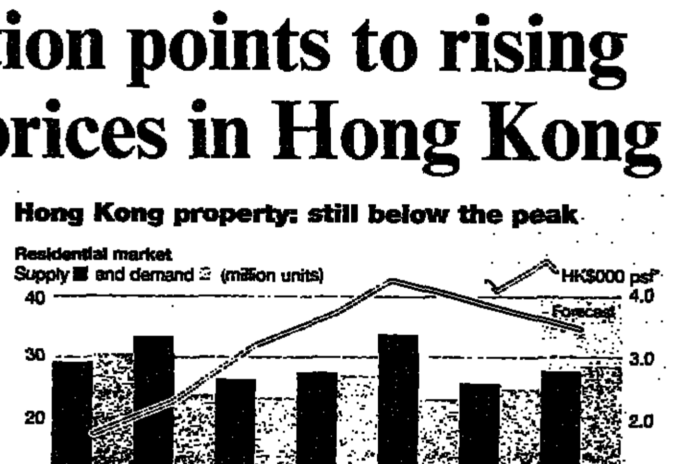
"It is a good sign when you see the big players moving back in," Mr Faulkner added. "They had gone quiet over recent months, leaving the bidding to second-string companies."

The other sites sold yesterday included an office site in the downtown Central district.

Despite signs of upturn, several property developers cite a patchy recovery. "We are seeing different levels of performance in different sectors," Mr Keith Kerr, managing director of Swire Properties, the property arm of the Swire group, said.

Most analysts predict further strengthening in property prices this year as economic conditions improve. They believe the rebound from property price falls of 20-30 per cent since the market peaked in spring 1994 is unlikely to be rapid. They also caution that recovery depends on continued easing in Hong Kong's monetary policy, a process dictated by the movement of US interest rates.

Hong Kong property: still below the peak



Source: Brooke Hillier Parker · *per square foot

HK survey, separate section

EU outlines $4.5bn Bosnian aid package

Continued from Page 1

Moslem-Croat federation and the Serb republic.

But intimidation by Serb and Moslem extremists, and the failure of either United Nations or Bosnian government police to offer protection, has served to ensure that few Serbs will remain in the city's outer suburbs.

Western officials warned yesterday that some areas in the Moslem-Croat federation might be denied reconstruction aid if their local authorities refuse to abide by the Dayton accord.

Mr Christopher also pressed for Belgrade to normalise relations with Sarajevo and Zagreb.

THE LEX COLUMN

French hang-up

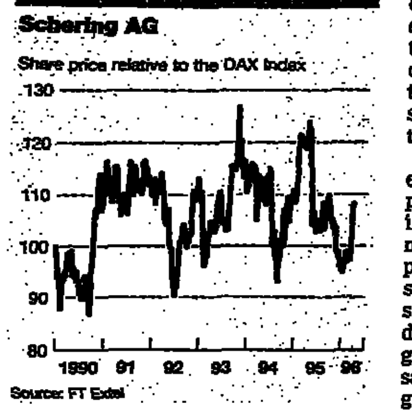
France will have a hard time floating France Télécom. Yesterday's announcement by prime minister Alain Juppé was met with a chorus of criticism from the state-owned telecoms group's unions. This is despite the fact that the government promised a dialogue with staff, and guaranteed their status as civil servants within a group which will remain controlled by the state.

Following last December's crippling public sector strikes, the French government is anxious not to provoke a backlash. But, unless it has the courage to press on, it is hard to see what will bring the unions to the negotiating table. This is a pity because France Télécom is better-placed for privatisation than many other state-owned telecoms groups, particularly its partner Deutsche Telekom. Not only is the French group more efficient; its tariff structure more accurately reflects costs, so making it less vulnerable to "cherry-picking" when its market is opened to competition in 1998. Partly for these reasons, there is not yet the same array of well capitalised domestic and international groups poised to invade the French market. France Télécom's financial position is also stronger: net debt is FFr80bn ($15.8bn) compared with Deutsche Telekom's DM100bn ($67.5bn).

Unfortunately, the group's relative strength cuts both ways. It makes it hard to instil a sense of urgency among employees. That said, France Télécom's advantages are eroding: whereas a decade ago it was much more productive than British Telecommunications, the two are now on a par. If privatisation is delayed, it will slip behind.

FT-SE Eurotrack 200: 1661.1 (+9.1)

Schering AG



Source: FT Extel

Schering

Schering should take two aspirins and try to forget 1995. Health scares, product withdrawals and the strong D-Mark meant the German drugs group missed its profit targets and its shareholders missed out on a bumper year for pharmaceutical stocks. Schering's management expects a return to form in 1996 and is gamely forecasting an 18 per cent rise in profits on a 9 per cent sales increase. This looks optimistic given the problems in each of its three main product areas. Contrast media, used in X-rays, face a double-digit price cut in Japan, their largest single market. Following on from last year's scare that some contraceptive pills might cause thrombosis, women have been switching from newer types to older, safer ones, which are also much less profitable. And while Betaferon, its multiple sclerosis treatment, is being rolled out across Europe, it will face competition in the US from the middle of this year.

Despite this, Schering's shares have rebounded strongly in 1996 and now trade on 23 times forecast earnings – high even for the drugs sector. This reflects takeover speculation, since the group is a mid-sized drugs company with over DM2bn ($1.3bn) of net cash and scope for cost reductions. While operating margins of around 13 per cent are low, Schering's extensive manufacturing base in politically sensitive Berlin will be hard to cut. Nor is there much in the research pipeline to tempt a bidder; and anyone interested in contrast media, its main strength, could buy the much more lowly-rated Hafslund Nycomed. The shares look overvalued.

Conglomerates in Asia

The share price declines and demergers of once fashionable deal-driven conglomerates have partly reflected their inability to find acquisitions in the austere 1990s. Perhaps they are looking in the wrong place. Last week, Singapore-listed York Pacific was renamed Wassall Asia Pacific, as the Asian arm of the UK conglomerate. York hopes to replicate the old formula of reviving tired old manufacturing companies; but with the help of some of the world's fastest growing economies.

Wassall is not the first conglomerate to head east. Williams recently bought a Chinese lock business and BTR has a broad spread of Asian subsidiaries. Nonetheless, these have been strategic bolt-ons to existing businesses rather than opportunistic deals. Some caution is understandable. Cultural differences could impede the implementation of radical management changes. In a contacts-oriented world, the Western outsiders may struggle to get the deals. Besides, conglomerates have traditionally focused on extracting cash from mature businesses where there was little threat of new rivals squeezing margins; competition is a threat in the go-go Asian markets.

However, a mixture of Asia's fast economic growth and dabbling in property has allowed many local industrial businesses to survive poor management. Meanwhile, business practices are remarkably flexible. This suggests ideal conditions for Hanson-style corporate surgeons. With a dynamic market background, UK conglomerates could start to deliver the sales growth they have struggled to generate back home.

Harvey Nichols

If they weren't spending all their spare cash on champagne, fashion-junkies Edina and Patsy of the UK sitcom *Absolutely Fabulous* might be tempted to splash out on some shares in Harvey Nichols, the up-market fashion retailer, which yesterday announced plans to list on the London Stock Exchange. Dickson Concepts of Hong Kong, which bought Harvey Nichols for £51m in 1991 from the Burton Group, will sell half its interest.

The company's turnround has confounded doubters who thought Dickson was just another foreign company over-paying for a trophy asset. From a loss in 1993, Harvey Nichols turned in a £6.6m operating profit in 1995, as operating margins rebounded to a healthy 8.5 per cent. As well as stricter financial controls, the new management increased the sales area from 120,000 to 150,000 square feet, partly by opening a restaurant where the head office had been.

But, the turnround completed, the flotation's success will depend on management's ability to convince investors of the wisdom of its expansion strategy. It is about to open a store in Leeds and believes there is room for a handful of UK stores. It also plans more restaurants. The brand is certainly a strong one. But the success of the concept outside London is unproven. Investors should be sceptical of any attempt to market the deal as a luxury goods/leisure business. Although it sells luxury goods and has a restaurants business, it is still a retailer, and while its growth potential may merit a premium to the retailing sector, this should not be big.

Additional Lex comment on Argos, Page 23

FT WEATHER GUIDE

Europe today

A depression over the Bay of Biscay will bring cloud to wide areas of Spain and rain to the north-west of the country and to Portugal, although south-eastern Spain will be sunny. France and the Low Countries will be dry with early fog, while Switzerland and Germany will be mainly cloudy, with some rain and frost likely in Germany. Conditions will gradually improve in Italy, although southern regions will have occasional rain and thundery showers. Heavy rain is expected in Greece and the southern Balkans, with showers near the Black Sea. Russia will remain wintry.

Five-day forecast

Spring will arrive in western Europe in the second half of the week, with widespread sunny periods from the North Sea to Spain. Temperatures of more than 20C are expected in Spain. The western Mediterranean will be calm, dry and warm, although eastern areas will be showery and cold. The northern Balkans will be cold but dry.

Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

Maximum			Beijing	sun	13	Caracas	sun	29	Faro	cloudy	18	Madrid	cloudy	18	Rangoon	sun	36
Celsius			Belfast	cloudy	8	Cardiff	cloudy	10	Frankfurt	cloudy	11	Majorca	fair	16	Reykjavik	sun	1
Abu Dhabi	cloudy	30	Belgrade	fair	6	Casablanca	shower	19	Geneva	cloudy	10	Malta	thund	16	Rio	cloudy	28
Accra	thower	33	Berlin	fair	4	Chicago	snow	-1	Gibraltar	cloudy	17	Manchester	fair	9	Rome	cloudy	13
Algiers	sun	19	Bermuda	cloudy	24	Cologne	cloudy	10	Glasgow	cloudy	5	Manila	thund	33	S. Frsco	sun	18
Amsterdam	cloudy	6	Bogota	cloudy	20	Dakar	fair	24	Hamburg	sun	4	Melbourne	cloudy	22	Seoul	sun	10
Athens	shower	12	Bombay	sun	32	Dallas	fair	13	Helsinki	cloudy	2	Mexico City	sun	28	Singapore	shower	33
Atlanta	windy	12	Brussels	cloudy	7	Delhi	fair	26	Hong Kong	rain	27	Miami	fair	27	Stockholm	cloudy	4
B. Aires	sun	31	Budapest	fair	10	Dubai	fair	30	Honolulu	fair	27	Milan	cloudy	13	Strasbourg	cloudy	9
B.ham	cloudy	9	C.hagen	fair	4	Dublin	cloudy	10	Istanbul	shower	6	Montreal	rain	7	Sydney	fair	25
Bangkok	sun	37	Cairo	rain	18	Dubrovnik	rain	13	Jakarta	shower	31	Moscow	sun	5	Tangier	cloudy	19
Barcelona	fair	15	Cape Town	fair	24	Edinburgh	shower	5	Jersey	cloudy	10	Munich	cloudy	8	Tel Aviv	cloudy	20
									Karachi	sun	29	Nairobi	fair	29	Tokyo	fair	13
									Kuwait	fair	29	Naples	shower	14	Toronto	rain	5
									L. Angeles	sun	23	Nassau	fair	28	Vancouver	rain	12
									Las Palmas	fair	22	New York	rain	10	Venice	cloudy	13
									Lima	fair	26	Nice	shower	15	Vienna	cloudy	10
									Lisbon	rain	17	Nicosia	shower	19	Warsaw	sun	0
									London	cloudy	11	Oslo	fair	2	Washington	rain	12
									Luxbourg	cloudy	6	Paris	cloudy	11	Wellington	rain	19
									Lyon	cloudy	10	Perth	sun	27	Winnipeg	sun	-2
									Madeira	fair	21	Prague	cloudy	8	Zurich	cloudy	10